



Digitized by the Internet Archive
in 2014

<https://archive.org/details/businessweek199901newy>

For Reference
Do Not Take
From the Library

Every person who maliciously cuts, defaces, breaks or injures any book, map, chart, picture, engraving, statue, coin, model, apparatus, or other work of literature, art, mechanics or object of curiosity, deposited in any public library, gallery, museum or collection is guilty of a misdemeanor.

**Penal Code of California
1915, Section 623**

January 11, 1999

3 9042 04589733 4

BusinessWeek

JANUARY 11, 1999 A PUBLICATION OF THE MCGRAW-HILL COMPANIES \$3.95

Michael Dell Dell Computer | Charles Schwab
Charles Schwab & Co. | S. McNealy Sun
David Glass | Steve
Jobs Apple | Craig Barre | Steve Case
Tim Koogle Yahoo | Steve
Wolf | Ed
America Online | Walter Shibley Chase
Richard McGinn Lucent Technologies | Nobuyuki
dei Sony | Marilyn Carlson Nelson Carlson Cos.

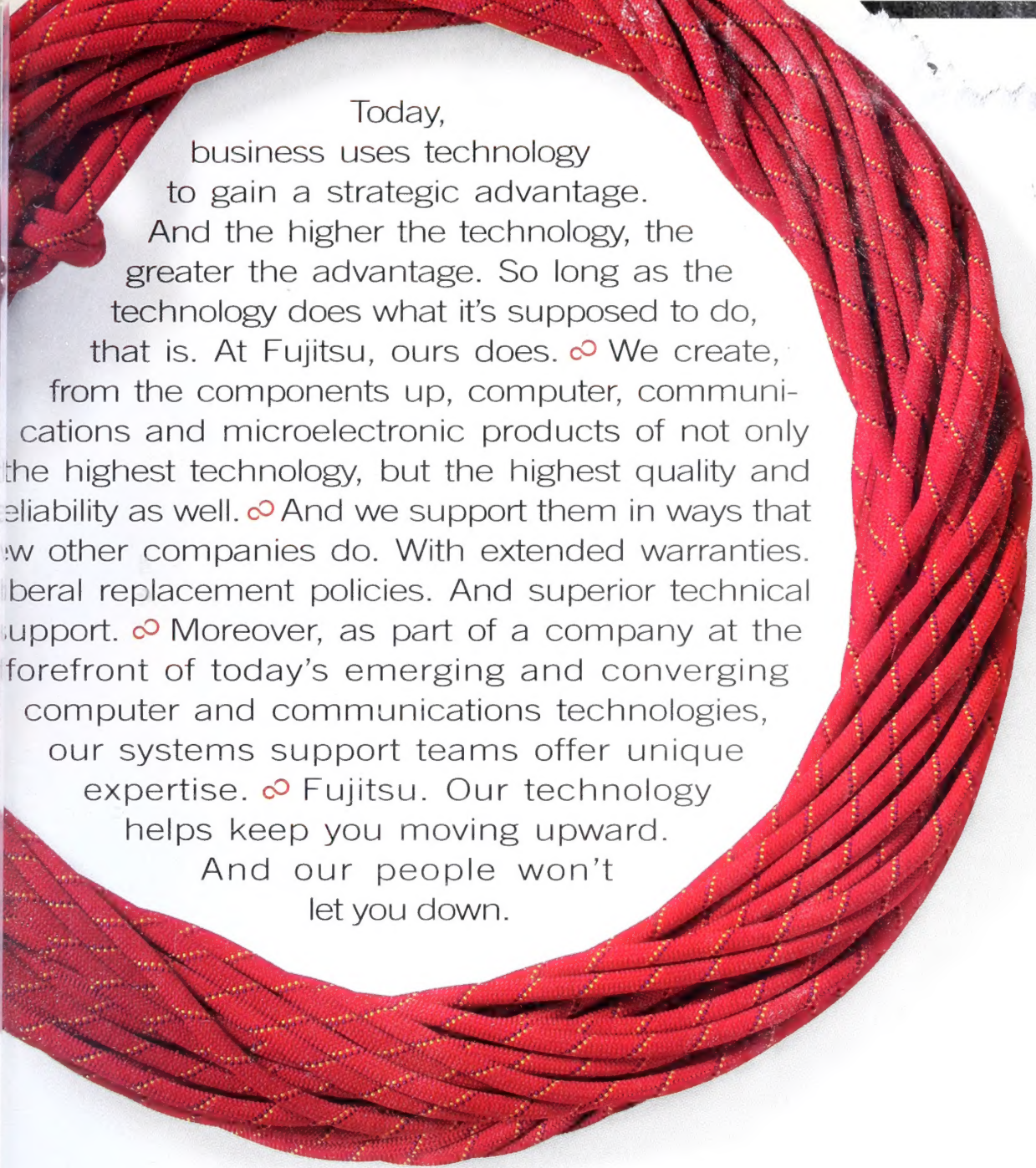
THE TOP 25 EXECUTIVES of the YEAR

BURLINGAME
JAN 4 - 1999
LIBRARY
BURLINGAME PUBLIC LIBRARY
480 PRIMROSE RD
BURLINGAME CA 9401
#BXBDGDD**CAR-RT-SORT**
#0602 105811600#JAN00 T02

EXECUTIVES TO WATCH
THE HOTTEST ENTREPRENEURS

**THE HIGHER
THE TECHNOLOGY,
THE MORE IMPORTANT
THE SUPPORT.**





Today,
business uses technology
to gain a strategic advantage.
And the higher the technology, the
greater the advantage. So long as the
technology does what it's supposed to do,
that is. At Fujitsu, ours does. ∞ We create,
from the components up, computer, communi-
cations and microelectronic products of not only
the highest technology, but the highest quality and
reliability as well. ∞ And we support them in ways that
few other companies do. With extended warranties.
liberal replacement policies. And superior technical
support. ∞ Moreover, as part of a company at the
forefront of today's emerging and converging
computer and communications technologies,
our systems support teams offer unique
expertise. ∞ Fujitsu. Our technology
helps keep you moving upward.
And our people won't
let you down.

∞
FUJITSU

COMPUTERS, COMMUNICATIONS, MICROELECTRONICS

the steak.



***Chrysler Cirrus ranked "Best Entry Midsize Car
in Initial Quality" by J. D. Power and Associates.
Why not drive one and see for yourself?***

*Base MSRP after \$1,000 cash allowance includes destination, excludes tax. **Chrysler Cirrus was the highest-ranked entry midsize car in J.D. Power and Associates 1998 Initial Quality Study.

The sizzle.

\$18,995.* Loaded. We challenged our engineers to see how many luxuries they could make standard in the new Chrysler Cirrus LXi—and they succeeded beyond our accounting department's wildest nightmares. A powerful 24-valve V6, anti-lock brakes, speed-sensitive steering for added precision and air conditioning were just the beginning. Next we added a powerful six-speaker premium sound system and Remote Keyless Entry for extra convenience and pampering. Yet even making all those features standard didn't satisfy our notoriously obsessive engineers. So they tossed in leather-trimmed seats and an eight-way power driver's seat at no extra charge. All in all, we're willing to wager you've rarely experienced a steak that comes with as many garnishes as the new Chrysler Cirrus LXi. For more information, call 1.800.CHRYSLER or visit our Web site at www.chryslercars.com.



CHRYSLER CIRRUS

*Based on total of 58,117 consumer responses indicating owner-reported problems during the first 90 days of ownership.



THE 25 TOP EXECUTIVES

For some, it was results. For others, just cutting losses was distinction enough page 58

BusinessWeek

JANUARY 11, 1999

THE TOP ENTREPRENEURS

Riding the Net boom was only one of the roads to riches page 82



Cover Story

58 THE TOP EXECUTIVES

A spreading global economic crisis. A super-schizy stock market. Earnings pressures and rising wages. Where others saw chaos in 1998, these 25 corporate leaders found an occasion for bold action or a brilliant defense

82 THE TOP ENTREPRENEURS

Bright ideas were a must, but knowing how to leverage gumption helped, too

News: Analysis & Commentary

38 BAD FOR BUSINESS?

Impeachment gridlock would stall any progress on Corporate America's legislative agenda

40 COMMENTARY: A RETURN TO CIVILITY

Some suggestions on how to begin a sorely needed shift for both parties

41 IS LOCKHEED TOO BIG?

The world's largest defense contractor is turning into a management nightmare

42 THE QUARTER MAY BE A STINKER

Weak overseas sales, price deflation, and high wages are taking a toll

44 TEXACO'S BLACK HOLE

Bottom-of-the-barrel prices have the giant cutting jobs and spending

45 COMMENTARY: THE SEC

Its fraud suit against W.R. Grace is the right first move in busting up a balance sheet shell game

46 WHY PC SELLERS ARE PUNCHY

Prices are low, but traffic is way up, and retailers are making money

48 COMMENTARY: Y2K

A better vaccine against the coming plague of millennium bug lawsuits

49 SCHWAB: IPOs 'R' US

Its online investors stand to get a bigger slice of the action

50 IN BUSINESS THIS WEEK

Economic Analysis

30 ECONOMIC VIEWPOINT

Tyson: A Senate trial would try the economy that was strengthened by Clinton's leadership

34 ECONOMIC TRENDS

A break for big caps, Chile ices hot money, taxes and the rich, brainy immigrants

35 BUSINESS OUTLOOK

U.S.: Consumer spending is o
Australia: Low interest rates
currency help it weather Asia

Government

55 WASHINGTON OUTLOOK

A major boost in the Pentagon
is likely—but not without a ba

Features

6 UP FRONT

10 READERS REPORT

11 CORRECTIONS & CLARIFICATION

18 BOOKS

Ortega: *In Sam We Trust: The Story of Sam Walton and How Wal-Mart is Devouring America*

23 BUSINESS WEEK BEST-SELLER

26 TECHNOLOGY & YOU

The open-source movement: So not to like about free software?

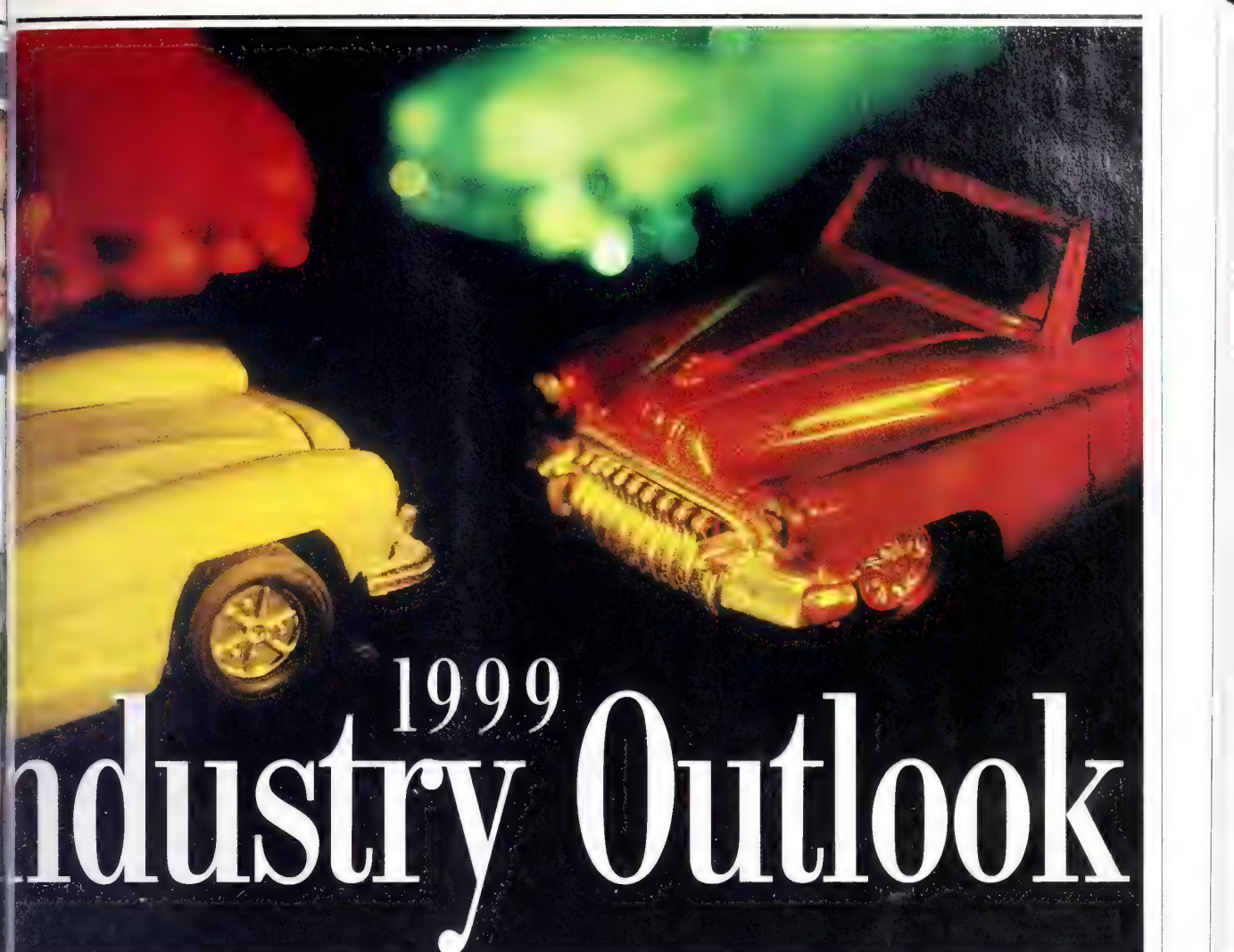
57 INSIDE WALL STREET

151 BUSINESS WEEK INDEX

152 INDEX TO COMPANIES

153 INVESTMENT FIGURES OF THE WEEK

154 EDITORIALS



1999 Industry Outlook

PRODUCTION

VIEW

ing consumers and low inflation may confound the doomsayers

WESS WEEK/HARRIS POLL

enly, some trepidation at the top

FORMATION

PUTERS AND CHIPS

three years of tough times, rays pe on the silicon horizon

WARE

ultants are in clover

COMMUNICATIONS

e year of the regulator, a bit more etition and a lot more litigation

A AND ENTERTAINMENT

American home will go digital

SCIENTENCES

IS AND BIOTECH

products and price hikes will make nother record year

CULTURE

-market pricing is finally hitting the rican farmer

108 HEALTH CARE

Mergers and increased profits may breathe new life into HMOs

MANUFACTURING

112 AUTOS

Even with bigger rebates, sales are expected to slow

114 AEROSPACE

This could be a record-breaking year

116 METALS

The imported steel crisis eases

118 ENERGY

Falling oil prices are sinking producers

DISTRIBUTION

124 RETAILING

As consumers react to a slowdown, shopkeepers will feel their pain

126 FOOD

The race belongs to the big

128 TRANSPORTATION

Customers will be in the driver's seat

SERVICES

132 EDUCATION

Growth ahead, especially in K-12 computers and adult technical ed

134 TRAVEL

A building boom may hurt hotel rates, and airlines face regulatory pressure

136 REAL ESTATE

The pace could cool—just enough to extend the good times

138 UTILITIES

The deregulation revolution that wasn't

FINANCE

142 SECURITIES

Slower business could be offset by lower rates. And M&As are hopping

147 INSURANCE

Pricing is flat, demand is stagnant, and the dismal trends of '98 will continue

148 BANKING

Between low deposit flows and falling loan income, margins will be squeezed

BusinessWeek **ONLINE**

www.businessweek.com
America Online: Keyword: BW

Up Front

EDITED BY ROBERT McNATT

TINSELTOWN

A MILLENNIUM BUG'S LIFE

WITH SOME FOLKS already preparing for global disaster as the millennium nears, Hollywood wants to cash in on those fears. So get ready for *Y2K: The Movie*, a fall Warner Brothers Studios production whose plot centers on the Year 2000 computer bug. It will star Chris O'Donnell (Robin in *Batman Forever*) as a hunky Manhattan hacker who finds a potentially lethal version of bug-infested Y2K code on the hard drive of a "master computer" controlled by evil forces out to destroy the world.

International Y2K crisis managers, however, are less than thrilled with this thriller.



O'DONNELL

Meeting at the U.N. last month to devise ways to soothe public panic, they began drafting a formal resolution urging Hollywood studios to cool it on bug-disaster films next year. Explains Carlos Jarque, Mexico's official Y2K manager: "The high rate of computer illiteracy around the world is fertile ground for people with apocalyptic scenarios."

But Stu Zicherman, who wrote the Y2K screenplay, says "Y2K is the greatest ticking clock ever, one of the few deadlines in the history of the world that you cannot push back." Or, apparently, resist: 1999 also brings 20th Century Fox Film's *Entrapment*, starring Sean Connery—and a global computer blackout on Jan. 1, 2000. *Marcia Stepanek*

SCRAMBLED EGGHEADS

A NOBEL IS A NOBEL IS A NOBEL...

IT WASN'T ALL THAT LONG after Myron Scholes and Robert Merton picked up their 1997 Nobel prizes for economics that Long-Term Capital Management, the hedge fund they helped found—using their prize-winning options-pricing theories—slid toward insolvency.

So in the wake of that disaster, which resulted in a \$3.6 billion takeover of LTCM, have other economists drummed the two out of the tribe? *Au contraire.* On Jan. 4 in New York, the American Economic Assn. will honor them at a luncheon with at least 400 of their peers. Al-

though the AEA usually fetes Nobel laureates, it says something about academic economics that failure in business is hardly regarded as a negative. Still, though practitioners of the dismal science hold the pair's theories in high regard, they do have a sense of irony. Said Merton Miller of the University of Chicago, prior to the lunch: "It's not a roast. But I'm going to be watching Myron over there to see if he's wincing." Wincing is one thing Scholes and Merton should be good at by now. *Peter Coy*



TALK SHOW "The millennium bug will not delay the payment of Social Security checks by a single day."

—President Clinton, commenting on the government's computer readiness for the year 2000

WILD BLUE YONDER

FLYING UNITED WITH PAPERLESS TICKETS

IN JUST FOUR YEARS, electronic airline tickets have come to account for about one-third of all air trips. Now, in a plan to please their customers and set a new industry standard, the nation's two biggest carriers are trying to overcome the



single biggest drawback of E-tickets.

Currently, airline computers can't recognize E-tickets issued by other carriers, mak-

ing it tough for a customer to switch to a different carrier from a canceled flight. Passengers must convert tickets to paper first. That's a time they don't always want to spend.

So in the first half of 1999, United Airlines and American Airlines will begin "interlining," making their tickets interchangeable in a few keystrokes. Both carriers have enough business at Chicago's O'Hare International Airport, where they have hubs, to make co-operation worthwhile. And toward the end of 1999, United plans to do the same with its overseas partners, like Lufthansa. Says James Good, president of UAL, United's parent: "We're doing this as part of an overall strategy to take hassle out of the airport." Now if those computers could only do something about air parking. *David Leon*

SERIOUS GAMES

MIDEAST TENSIONS—RIGHT IN YOUR DEN

WHEN IT COMES TO COMPUTER simulation games, realism and timing lead to success. So, thanks to a strong holiday shopping season and Desert Fox, Pixel Multimedia's new PC war game, *Israeli Air Force*, had brisk U.S. sales in December.

But the game's realism was a little too real. Israeli military authorities who previewed the game noticed that maps used in it were so precise that foes could use them to plan real attacks. So Pixel, based in Tel Aviv, made changes in exchange for info about past air combat campaigns it could put into later versions. The truly revealing game never hit the market.

The pinpoint accuracy was no fluke. Pixel's chief executive—a reservist fighter pilot



TOO REAL? Israeli Air Force

who for security reasons identified only as Lieutenant Colonel R.W.—earned combat wings battling Syrian MiGs over Lebanon's Beqaa Valley in 1982. "It's real at the most extreme," he says of the game, where virtual aircraft recreate such missions as 1981's bombing of an Iraqi reactor. In fact, the links between Pixel and the Israeli Air Force are so tight that Electronic Arts, the U.S. publisher, will postpone shipping new products if Israel goes to war. *Steve Hargrave*



celeron™

PROCESSOR

Look who's in business now.

Great performance at an exceptional value.

Looking for a smart buy? Here's today's top pick—the Intel® Celeron® processor. It gives you quick and responsive performance for today's business applications. At a great value. And because it's from Intel, you get all the compatibility and reliability you've come to expect. To learn more, contact your PC manufacturer, see your local reseller, or visit us on the Web. ► www.intel.com/Celeron



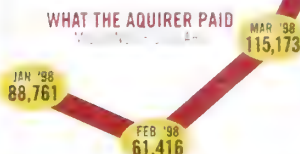
intel

The Computer Inside

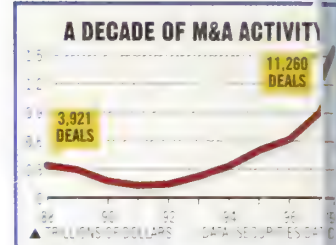
Up Front

GOING TO THE CHAPEL...

UNFAZED BY VOLATILE FINANCIAL MARKETS OR IMPEACHMENT politics, dealmakers made 1998 a record year, with \$1.6 trillion in mergers and acquisitions through Dec. 26. Buoyant stock markets during most of 1998 meant companies paid with stock, not cash. And yes, there was a bandwagon mentality as some corporations avidly—though unwisely—sought matches that didn't work out.



APR. 6: Citicorp and Travelers Group merge to become Citigroup, the world's largest financial-services concern. John Reed and Sandy Weil are co-chairmen with adjoining offices in Citicorp's New York headquarters—but Weil gets a fireplace.



NOV. 23: "Merger Monday." Among day's nine big deals, Deutsche Bank, by Rolf Breuer, buys Bankers Trust. Un the '80s, when Japan Inc. was on a sp Americans now yawn at foreign inroad



1998 THE YEAR'S BIGGEST DEALS

TARGET	ACQUIRER	DATE ANNOUNCED	VALUE OF DEAL (\$MIL)
MOBIL	EXXON	12/1	86,355
CITICORP	TRAVELERS GROUP	4/6	72,558
AMERITECH	SBC COMMUNICATIONS	5/11	72,357
GTE	BELL ATLANTIC	7/28	71,324
TCI	AT&T	6/24	69,897
BANKAMERICA	NATIONSBANK	4/13	61,633
AMOCO	BRITISH PETROLEUM	8/11	55,040
CHRYSLER	DAIMLER BENZ	5/7	40,467
WELLS FARGO	NORWEST	6/8	34,353
FIRST CHICAGO	BANC ONE	4/13	29,616

DATA: SECURITIES DATA CO.

1998 FIVE ALMOST-RANS

TARGET	ACQUIRER	DATE ANNOUNCED (DATE WITHDRAWN)	VALUE (\$MIL)
MONSANTO	AMERICAN HOME PRODUCTS	6/1 - (10/13)	39,7
MELLON BANK	BANK OF N.Y.	4/22 - (5/20)	24,2
NORTHROP GRUMMAN	LOCKHEED MARTIN	7/3/97 - (7/17/98)	11,7
COMPUTER SCIENCES	COMPUTER ASSOCIATES INTL.	2/10 - (3/9)	9,54
MEDPARTNERS	PHYCOR	10/29/97 - (1/7/98)	7,98

DATA: SECURITIES DATA CO.

TRIVIA QUIZ

UP ON YOUR READING, READER?

The big got bigger in 1998, thanks to the big mergers. But business news certainly wasn't limited to just M&A. Remember the other things that happened last year?

1. Did somebody say: "Let's kill all the lawyers?" A group of attorneys was awarded \$8.1 billion in 1998. Who was this enviable group, and what was that sum for?

2. At the behest of the Fed, 14 private financial in-

stitutions bailed out hedge fund Long-Term Capital Management. How much did that rescue cost?

3. What part-time songwriter joked that "not a single PolyGram star has called me to ask for one of my electrifying lyrics?"

4. Stock markets in East Asia were in turmoil last summer. What partial answer did the Hong Kong government come up with in August?

5. In 1998, many commodities saw record low prices. How low did a barrel of oil go? And how many gallons are in a barrel of oil?

6. After their much-herald-

ed merger, these two companies also announced that some 10,400 people will be laid off. Who are the companies?

7. With about \$900 million in debt, what company got its wings clipped when it declared Chapter 11 bankruptcy this fall? Its address is Golden (Colorado, that is), but its finances weren't.

8. What company did Microsoft CEO Bill Gates ask to

PLUCKED and broke

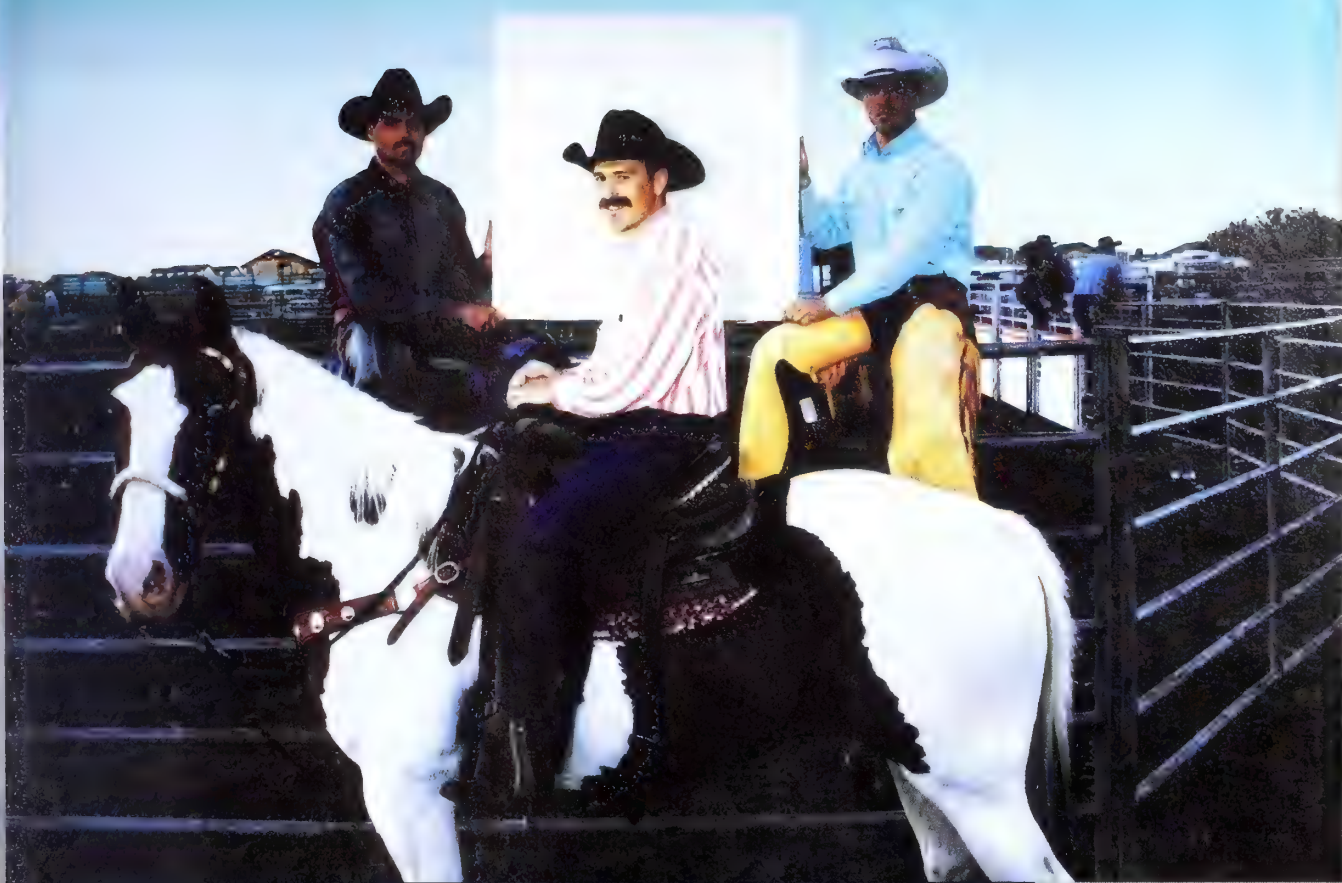
help him under Sun Microsystems and its Java programming language.

9. Last year, was the inflation rate in the U.S. about one-half the unemployment rate, one-third it, or about the same?

10. To which play did the Los Angeles Dodgers pay \$100 million in a record-setting contract?



GATES: You're got mail!



I am an investor.

I am a card-carrying member of a once-exclusive club.

I will not just get by.

I will go forward.



Morningstar Rating

3 years ending 9/30/98
among 2,678
domestic equity funds

TRANSAMERICA
PREMIER BALANCED FUND

0.96%

Return since inception
as of 9/30/98

0.21%

Year as of 9/30/98

1.86%

Return from inception
as of 9/30/98

FOR AS LITTLE AS \$50 A MONTH, YOU TOO CAN BE AN INVESTOR.

By automatically investing in any one of the Transamerica Premier Funds, whether it's the Transamerica Premier Balanced Fund, recently given a five-star rating by Morningstar,* or any of our other successful funds, the world of investing is open to everyone. Just call 1-800-89-ASK-US, ext. 1607, for more information, or visit us online at www.transamerica-funds.com. Past performance is no guarantee of future results. Be an investor.SM Call today.



TRANSAMERICA
PREMIER FUNDS

MORNINGSTAR PROPRIETARY RATINGS REFLECT HISTORICAL RISK-ADJUSTED PERFORMANCE AND ARE SUBJECT TO CHANGE EACH MONTH. FIVE STARS IS THE HIGHEST RANKING, REPRESENTING THE TOP 10% OF FUNDS IN AN INVESTMENT CATEGORY. MORNINGSTAR RATINGS ARE CALCULATED FROM A FUND'S 3-YEAR AVERAGE ANNUAL RETURNS IN EXCESS OF 90-DAY TREASURY RETURNS WITH APPROPRIATE FEE ADJUSTMENTS, AND A RISK FACTOR THAT REFLECTS FUND PERFORMANCE BELOW 90-DAY TREASURY BILL RETURNS. PAST PERFORMANCE IS NO GUARANTEE OF FUTURE RESULTS. INVESTMENT RETURNS AND PRINCIPAL VALUES VARY, AND YOU MAY HAVE A GAIN OR LOSS WHEN YOU SELL SHARES. FOR MORE COMPLETE INFORMATION, INCLUDING RISKS AND EXPENSES, CALL FOR A PROSPECTUS. READ IT CAREFULLY BEFORE YOU INVEST. TRANSAMERICA SECURITIES SALES CORPORATION, DISTRIBUTOR.

EDITOR IN CHIEF
MANAGING EDITOR
CHIEF ECONOMIST
ASSISTANT MANAGING EDITORS

ART DIRECTOR: Malcolm Friedman
CHIEF OF CORRESPONDENTS: James E. Ellis
SENIOR EDITORS: Bob Arnold, New Media; Frank J. Comes, World
Economics; Rick Green, Enterprise; Geoff Lewis, Paul Riedman, Kathy

EDITORIAL PAGE EDITOR
SENIOR WRITERS: Robert Barker, Anthony Barco, John A. Byrne, Jeffrey
M. Laderman, Gene G. Marica, Karen Pennar, Ois Por, Gary Weiss
ECONOMICS: James C. Cooper (Sr. Economist), B.S. Outlook ed.),
Kathleen Madigan, Michael J. Mandel, Economics ed., Peter Coy,
Gene Koretz, Trends ed., Christopher Farrel, Contributing ed.
INTERNATIONAL: Christopher Power, Asian Edition ed., Rose Brady
(European Edition ed.), Duane E. Anderson, Pete Engardio, Joan
Wagner, Sr. News ed., John Tempelman, Political Affairs, Sher Prass,
Asia; John Pearson, Latin America; Kerry Capel, Finance
ASSOCIATE EDITORS: Catherine Ernst, Aaron Bernstein, Dan Beucke,
Amy Dunkin, Neil Gross, Keith H. Hammonds, Kelley Howland, Larry
Light, Ira Sager, Leah Natanson, Spiro, Fred Strasser, Pat Wechsler
PICTURE EDITOR: Lawrence Lipmann
SENIOR ART DIRECTOR: Francesca Messina

DEPARTMENT EDITORS: Books, Corporate Finance, Corporate
Law, Legal Affairs, Management, Marketing, Media, Money & Banking, Gary
People, Personal Business, Scoreboards, Technology Strategies, Marcia
Stepanek, Telecommunications, Peter Up Front

STAFF EDITORS: Heather Green, Ellen Licking, Joan Ock, Edith Jodice
COPY EDITORS: Phyllis Crowder, Mary Maurer, Deputy chiefs: Marc
Doug Royalty, (Sr.) Gies Bunt, Joseph Mandel, Anne Newman, David
Researchers

PRODUCTION COPY EDITORS: Lawrence Dark, Chief, Ceine Kaating, Deputy
chief, Ha-berg Halundsson, B. Kite, Robert S. Norman, Robert J.
Rosenberg, Victoria Rubin
ART: John Perry, Steven Taylor (Deputy dir.), Don Beson, Alice Cheung,
Richard Demer, Andrea Kahn, Morgan, Christine Silver, Assoc., Peter
Mansueti, Asst., Graphics & New Media: Annur Eves, Creative dir., Joan
Hoffmann, Imaging: Annette Farn, Mgr., Alan Bomzer, Asst., Leo

PHOTO EDITORS: Scott Wynn, Deputy, Ronnie Weil, (Sr.), Michael Hirsch,
Anne Murray, Andrew Popper, Assoc., Bettina Baudoin, Kathleen Moore

EDITORIAL OPERATIONS: Yvonne F. Rodriguez (Director), Wally Baudin,
Nicholas M. White, Mgrs., Karen Butcher, Francisco Carozza, Thomas R.
Dowd, Nancy Gores, Stephen R. Lebrun, Judy A. LoGrasso, Jose L.
Martin, Peter K. Naberger, Jane M. Peterson, Laura Reissman, Karen

EDITORIAL TECHNOLOGY: Thomas L. Morgan (Director), Christopher Amado,
Richard Bastrino, David Bandler, Lawrence Crowe, Beth Higgins, James

BUSINESS WEEK ONLINE: Michael Mercado, Managing ed., A. Peter
Cam, John A. Dierdorf, John Johnson, Dennis K. Berman, Stefan
Eads, Nadav Einar, Paul Eng, Julia Lintab, Jeremy Quinter, Diane

CORRESPONDENTS: Atlanta: Dean Foust, Mgr., Boston: William C. Symonds,
Mgr., Paul C. Judge, Geoffrey Smith, Chicago: Richard A. Meiner,
Mgr., Roger O. Crockett, David Lehnardt, Andrew Osterand, DeAnn
Wiemer, Cleveland: Peter Galszka, Mgr., Dallas: Wendy Zeiler, Mgr.,
Storani Anderson, Forest, Detroit: Kathleen Kerwin, Mgr., Keith Naughton,
Los Angeles

Philadelphia: Michael M. San
Francisco: Hoff, Ang, Penner, Washington: Owen J. Mann (Sr. writer), Paula

correspondents: Amy Bonus, Stan Croce, Richard S. Dunham, Susan B.
Garand, Paul Magnusson, Mike McNamee, Stephen H. Wiestrom, Tech

Bombay: Manish K. Agar, Mgr., Frankfurt: Thane Peterson, Mgr.,
Hong Kong: Mexico City:

London: Moscow: Paris: Sao Paulo:
Shanghai: New York: Toronto: Joseph

EDITORIAL SERVICES: Broadcasting: Paul H. Harnar, Business Manager;
Barbara Baynton, Information Services: Jamie B. Russell, Director,
Karen Stevens, Mgr., Judy Dove, Susan Fisher, Debra Dreskin, Fred
Katzberg, Robert Roever, Susan R. Hedges, Barbara S. Johnson, Office
Manager, Rose Ann, Communications: Robert P. Pindale, Director,
Bridgers, Editor

Reprint Permission: Janet Donahue

PUBLISHER
SR. VP. ASSOCIATE PUBLISHER: William P. Kupper
SR. VP. OPERATIONS: Jan B. Hopkins
SR. VP. MARKETING & BRAND DEVELOPMENT: Harold A. Scheraga
VP. CONSUMER MARKETING/CIRCULATION: Thomas Wastson
VP. STRATEGIC PLANNING & PRODUCT DEVELOPMENT
VP. SALES

VP. STRATEGIC PROGRAMS: James H. McGraw
VP. SALES DEVELOPMENT: Mark A. Fenn
VP. MANAGING DIRECTOR/ASIA: Stephen B. Moss
VP. MANAGING DIRECTOR/EUROPE: Fritz Kuebecke
VP. TECHNOLOGY: Thomas J. Reed
VP. POLLER
DIRECTOR ADVERTISING BUSINESS: Linda F. Gervano
DIRECTOR PRODUCTION & SALES SERVICES: Mary J. Taito

THE Y2K ISSUE, FOR BETTER OR FOR WORSE

Much is being said about the cost of the Y2K problem, estimated at \$1 trillion ("Y2K is worse than anyone thought," News: Analysis & Commentary, Dec. 14). It would be interesting to compare this figure with other technology-induced costs we live with every day: loss of work hours driving to work and/or in traffic jams; medical costs caused by pollution, use of pesticides; the recent "natural disasters" that appear to have been caused by man's activities. I wouldn't be surprised if these costs were bigger than the Y2K cost. Also, the Y2K problem is a one-time problem; the other ones are permanent or recurring.

Jacques Jangoux
Belém, Brazil

When the author estimates the price tag for upgrading the nation's computer systems to deal with this issue, the assumption is that this expenditure will be a drain on the economy, with no payout. In fact, rather than patching their existing antiquated systems, many companies are belatedly replacing them with entirely new systems that not only solve the Y2K problem but have powerful new cost-reducing features. There will be a significant return on this investment that could go a long way toward offsetting the capital outlay and may leave the economy better off in the long run.

An analogous situation existed in Germany and Japan after World War II. Factories ruined by bombardment had to be rebuilt from scratch, with newer equipment replacing antiquated and inefficient earlier investments that prior management had been reluctant to scrap. This contributed to the "economic miracle" in both countries.

Charles J. Bodenshtab
Friday Harbor, Wash.

Your articles on the Year 2000 computer bug show that doom and gloomsters are moving into high gear. We've heard from this crowd before—just weeks ago we were told that the stock

market crash was only days away; the collapse of the global economy; careful analysis can only lead one unequivocally jubilant: Y2K's net economic consequences will be decidedly fiscal, not detrimental.

First, most organizations will be for Y2K. For the relatively few organizations that are not properly prepared the Millennium Bug will lead to disappearance through failure or errors. Such an "economic cleansing" is needed to spur innovation and out inefficient operations. Second, Millennium Bug is forcing organizations to become more creative in managing information technology. This is likely to unexpected benefits—for example, better information-security and cost management systems.

Third, the Millennium Bug is helping bring about closer economic ties among world economies. Evidence of how Y2K issue is fostering internationalism can be seen in a recent U.N. resolution that deals with issues of cooperation in solving the Millennium Bug. Although the costs of preparing for are significant, and some glitches are likely to occur, we predict that by the end of 2000, the massive benefits of Y2K become apparent to investors, corporate leaders, consumers, and politicians.

Lawrence A. G.
Martin P.
College Park

The Y2K problem is worse than have reported. Many people are still using to year 2000-compliant software are not converting old data. This is likely to lead to problems beyond 2000 part of a Y2K check, if software is changed, and data are not converted is necessary to make sure that the data will be accessible after Dec 1999.

Some of the problems that may encountered: The media on which data are stored cannot be read by year 2000-compliant software; the computer and/or operating system can no longer run the "old" software needs access the data; the software package

Business Week

McGraw-Hill

JANUARY 11, 1999 (ISSN 0007-7135)*** 3611

POSTMASTER: Send address changes to Business Week, P.O. Box 518, Hightstown, N.J. 08520. Periodicals postage paid at New York, N.Y., and additional mailing offices.

Center: CCC, 222 Rosewood Drive, Danvers, MA 01923, to photocopy article herein for the flat fee of \$1.00 per copy of each article. Send payment to the CCC. Copying for other than personal or internal use without express permission of The McGraw-Hill Companies is prohibited. Address requests for customized bulk reprints to E

ISSN 0007-7135/98 \$4.95

PRINTED IN THE

RECTIONS & CLARIFICATIONS

the tables of the Investment Outlook rebound (Dec. 28), the 1998 and 1999 earnings estimates represented basic earnings per share. Actual 1998 earnings share (those with a *) were diluted.

"Kids" (Management, Dec. 7) should be stated that of startups in Silicon Valley immigrants, 40% involved Indians, of those, half are by graduates of the Indian Institutes of Technology.

"You've come a short way, baby" (Social Issues, Nov. 23) misreported the number of men officers at Texaco Inc. There are three.

...s but treats dates as being in the 21st century (so a report intended to start at data from 1/1/1998 through 12/31/1998 finds no records, as the dates are listed as 1/1/2998 through 12/31/2998). We discovered this "beyond Y2K" problem in the course of launching a service to provide access to old financial data. We dealt with many financial operations and asked 10 large companies that had used their software whether they dealt with the above. The universal conclusion was unprintable!

Jon Casher
Chairman, RECAP Inc.
Oak Ridge, N.J.

WAGE GAP: SCHOOLS IT'S THE ONLY PROBLEM

Why the wage gap just keeps getting bigger" (Economic Viewpoint, Dec. 14) is an insightful observation on important labor force issues. Another matter must be thrown into the mix of disturbing factors regarding education. While it is true that our schools are not doing a universal good job of preparing pupils for secondary education and training, most of these individuals are still being sent into college—in schools that are concerned with "enrollment management" than with maintaining appropriate standards for admissions.

For the sake of institutional survival, colleges are accepting students in the current generation who would have to meet standards 20 or 30 years ago. An involved alumnus recently told me that his undergraduate college was setting over 70% of its applicant pool to meet the goal for the incoming freshman class!

Thomas M. Hines
Loudonville, N.Y.

...trying to explain why the wage gap is getting bigger, Laura D'Andrea mainly blames bad schools in poor areas. True enough, but surely the

eclipse of good manufacturing jobs plays a large role, too. These once bridged the gap between the high- and low-paying jobs, but as military preemption of skills eroded the technical superiority of their products and the cost-effectiveness of their manufacture, what was left was exported; hence the virtual eclipse of such high-skill industries as machine tools, rail equipment, etc. There was no attempt to revive them when some military industries were cut back. In the absence of job opportunities and role

models, no wonder many young people feel that not even "education" can free them. Globalization is no excuse; labor costs are now higher than ours in close to a dozen countries.

John E. Ullmann
Hempstead, N.Y.

WHAT'S QUICKER THAN AMAZON.COM

I enjoyed "Amazon.com: The wild world of E-commerce" (Cover Story, Dec.

© 1999 The Williams Companies, Inc.



Not content to let sleeping dogs lie, Ed announced his intention to seek reliability and innovation with Williams.

Make some noise. Demand reliability. Insist on innovation. Expect energy or communications solutions that reduce risk and advance your business plan. Or simply call the only leader in both: Williams. Smashing.

Williams

Energy • Communications • Leadership

1-800-WILLIAMS • NYSE: WMB

Look on the bright side. There'll also be lots more cherries and watermelons in the future. Because of agribusiness, Hoechst Schering AgrEvo, we aim to utilize biotechnology in improving crop production and crop protection for harvests that are more bountiful than ever. After all, the cultivated areas of the world won't get any bigger. But our children will. And it's their future that's at stake.



Imagine a world filled with more spinach, Brussels sprouts

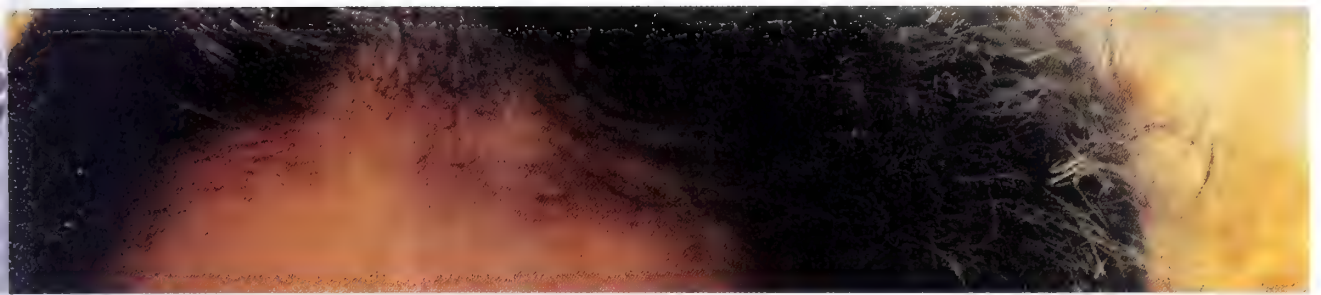


R 12548 BW

 **AgrEvo** is the agribusiness of Hoechst, an international group of companies spearheading innovation

The Future in Life Sciences

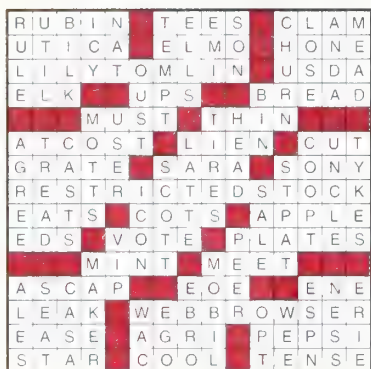
Hoechst



lima beans than you ever thought possible.



Mixing Business with Pleasure by Lincoln



Answers from puzzle #5
in Business Week.



LINCOLN

1-800-446-8888

Readers Report

14), but it missed two relevant points. First, when I go to the bookstore I do not have to pay shipping. I surfed to Amazon.com and found a book I wanted costing \$18.95 plus \$4.00 for shipping. The local Borders had it—no shipping charge. If I wanted more than one item and some are not in stock, Amazon will either ship them all together or charge for multiple shipments. Either I wait, or pay much more. Second, when I want a book quickly, I've learned to order directly from the publisher so I don't have to wait for Amazon to forward the order.

Douglas Wholey
St. Paul, Minn.

"Internet middleman" is redundant. The competitors that will drive Amazon out of business are not Barnes & Noble and the like. Rather they are the Web sites of the publishers whose books Amazon sells, and the Internet itself. Using extensible markup language and other improved search technologies, would-be book buyers and publishers will find each other without Amazon's help. Publishers can easily beat Amazon on speed and price and will increase their profit margins greatly in the process. It is not traditional stores that are in danger from the Internet; it is all middlemen. Online middlemen like Amazon will enjoy a brief window of success only until search technology catches up.

John T. Reed
Alamo, Calif.

SPORT-UTES AND AMERICA'S GREED PROBLEM

I was appalled to read about the Ford Excursion and the advent of the super-jumbo sport-utility van ("Ford's green dilemma," *The Corporation*, Dec. 21). I recently met a British couple visiting the U.S. and asked them to share their observations of American society. Their first comment referred to the unrestrained excess of American society—gargantuan vehicles on the road (as compared with Europe), napkins by the stack on your tray at fast food restaurants, and the general prevalence of the throw-away mentality. I encounter this perception of unbridled excess in America often on business trips to Europe.

America, the self-appointed morality policeman of the world, would do well to recognize that it produces a grossly disproportionate amount of the world's greenhouse gases, which have increasingly destabilized the global climate. The Ford Excursion is symbolic of a selfish society with limitless greed and an insatiable need for instant gratification.

America must recognize that it shares the world with other peoples, and act with responsibility.

Oliver Somers
Sedona, Ariz.

TEMPING CAN BE THE RATIONAL CHOICE

The issue of contract work is complex, and we appreciate your willingness to dive head-first into a subject filled with gray areas ("Programmers of the world...", *The Workplace*, Dec. 7). In any career, contracting has both positive and negative aspects. Many find that a higher hourly salary, overtime pay, and flexibility compensate for benefits that while comparable to those enjoyed by the full-time employees of most firms, do not rival Microsoft benefits. In today's labor market, experienced technical professionals have choices, and many embrace contract work as the positive choice it can be. After all, contractors have mastered a truth about work that many of us prefer to avoid—in the long run, we are all temporary.

Donna Salazar
President, S&T Online
Seattle

CONSECO: ITS OPTION PLAN COULD HELP SHAREHOLDERS

I am writing to express my dissatisfaction with the cursory nature in which Consecro Inc.'s 1998 stock-option program was discussed in "The mother of all stock option plans" (*Finance*, Nov. 23). And Debra Sparks quotes Graef Crystal Baller Alan Johnson to lend support to the premise that Consecro's option plan will disproportionately benefit the option holders in the event of a change of control. Consecro because the company would be required to redeem the options at the takeover price. Certain executives will benefit even further, states Sparks, because of a change-of-control provision requiring the company to pay the executives multiples of their respective annual salaries/bonuses. The end result of the "exceptionally lavish" incentives: Consecro executives are encouraged to leave the company (thus sacrificing long-term shareholder value).

These points are all debatable. The provision, an option-redemption provision, the one outlined could serve as an effective "poison pill" (if it were to bind the acquiring company), helping to raise the potential takeover price, as could a provision requiring payment of a salary/bonus multiples. Moreover, by setting the option strike price to the

From American Century:

Over-Achieving International Funds

INTERNATIONAL DISCOVERY FUND



Overall Morningstar Rating

INTERNATIONAL GROWTH FUND



Overall Morningstar Rating

*Morningstar performance ratings as of September 30, 1998.
Funds rated for the overall period among 819 international stock funds.*

Please ask for a prospectus with more complete information, including charges and expenses. Be sure to read it carefully before you invest. Please consult a prospectus for information about other share classes. Naturally, past performance can't guarantee future results. You should keep in mind that international investments are subject to special risks, such as currency fluctuation or political instability. The International Discovery fund invests primarily in stocks of smaller companies which are subject to greater short-term price volatility than the stocks of larger, more well-established companies.

Morningstar proprietary ratings reflect risk-adjusted performance for Investor Class as of 9/30/98. These ratings may change monthly, and are calculated from the fund's three- and five-year (when available) average annual total returns in excess of 90-day Treasury bill returns, with the appropriate fee adjustments and a risk factor that reflects fund performance below 90-day Treasury bill returns. International Discovery has a five star rating for three-years and overall out of 819 international stock funds. International Growth has a four star rating overall out of 819 international stock funds and five-years out of 359 international stock funds and a five star rating for three-years out of 819 international stock funds. The top ten percent of the funds in an investment category receive five stars, the next 22.5% receive four stars. Funds Distributor, Inc. ©1998 American Century Services Corporation



AMERICAN
CENTURY

BWK368-11C

www.americancentury.com

1-800-345-2021

NOW IN ITS THIRD PRINTING!

A MANAGEMENT GUIDE TO
CUTTING THROUGH THE NONSENSE
AND DOING THINGS RIGHT

THE POWER • OF • SIMPLICITY

JACK TROUT

WITH STEVE RIVKIN



www.books.mcgraw-hill.com

Simplicity Is Catching On

The world-renowned business strategist and marketing guru exposes the silliness, complexities, and nonsense that get in the way of doing business. He gives you the "keep it simple" rules for doing things right!

Available at Bookstores
Everywhere



Many happy returns.

Millions of wild ducks and geese are finding more and better habitat all along North America's flyways—thanks to Ducks Unlimited. Since 1937, DU has turned its contributors' dollars into more than 8 million acres of habitat.

1-800-45-DUCKS



DUCKS
UNLIMITED

Ducks Unlimited · One Waterfowl Way · Memphis, Tennessee 38120 · www.ducks.org

Readers Report

takeover price, managerial interest (theory) are aligned with shareholder interests, since the manager will opt for sale over entrenchment.

Finally—and most important—shareholders have a voice in all of these matters. While state law generally vests boards of directors with latitude over stock-option grants, several factors (such as stock-exchange rules and federal income-tax laws) encourage—or, in some cases, require boards to seek shareholder ratification. Presumably, such is the case with Ingersoll, since the article points out that it is seeking proxies.

I encourage you to devote more time to this issue so investors can better gauge the effects executive-compensation decisions have on the markets.

Charles Zaretsky
Plainsboro, NJ

FINDING US ONLINE

BusinessWeek ONLINE

The full text of Business Week, the Business Week Daily Briefing, and seven years of BW archives are available on the World Wide Web at:

www.businessweek.com

and on America Online at Keyword: BW

To sign up for BW on AOL, call (800) 641-4848 and mention Business Week

maven

Shopping for computer equipment? Visit Maven's online Computer Buying Guide, for continuously updated ratings and price information.

Go to Keyword: Maven on America Online, or to the World Wide Web at:

www.maven.businessweek.com

HOW TO REACH BUSINESS WEEK

LETTERS FOR READERS REPORT

All letters must include an address and daytime and evening phone numbers. We reserve the right to edit letters for clarity and space and to use them in our electronic and print editions.

Mail: Business Week, 1221 Avenue of the Americas, 39th floor, New York, NY 10020

Fax: (212) 512-6458

Internet: bwreader@businessweek.com

America Online: readersbw

SUBSCRIBER SERVICES

For individual subscriptions, corporate subscriptions, renewals, changes or problems, and single copies:

Phone: (800) 635-1200 or (609) 426-7500

Fax: (609) 426-7623

Internet: bwcustsv@businessweek.com

Library fee-based services: (212) 512-6704

REPRINTS AND COPYRIGHT PERMISSIONS

For custom reprints (minimum order of 1,000) call: (609) 426-5494

For all other permission or reprint inquiries,

Phone: (212) 512-4801

Fax: (212) 512-4938

Internet: www.businessweek.com/reprints/

presented by:

 Masters of the Web

To Benefit:



the **computer** museum

Corporate Sponsors:



DIGEX
IN A SPECIAL HOUR AT THE MUSEUM

MEMO
ninety eight

Daniels

ALL-CONNECTION ASSOCIATION

GRANITAR
SYSTEMS

HOME SITE



IPSWITCH

Lucash, Gesmer
& Updegrove, LLP

Member of the Law



NETSCAPE®

PLANET
INTERACTIVE

PRICEWATERHOUSECOOPERS®



Stagecast.

The Learning Company
For all the world's



A Lycos Network Site



Trade Associations:

ASSOCIATION
for
INTERACTIVE **AIM**
MEDIA
www.interactivehq.org

NAW
The National Association of Webmasters



MASSACHUSETTS
SOFTWARE
COUNCIL

Sleep
deprivation
can make you
hallucinatory,
demented and
delusional.



[Not to mention the world's best Web designer.]

Visit our gallery at WWW.WEBMASTERS98.COM and see what the world's most talented Web designers can do in 24 hours of inspired, unbridled creativity. It's as if they had been saving their best work just for the Masters of the Web competition. And for helping seriously ill children. So drop by our gallery.

ey **ROGAINE!**

JOHN MCENROE MAY 1997

JOHN MCENROE NOVEMBER 1998

Nice **RETURN!**

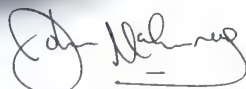
John McEnroe's hair is *back!*

Look at the pictures. John attacked his bald spot with **Rogaine Extra Strength** for Men. And he beat it.*

Is John the first man to snatch victory from the follicles of defeat using Rogaine Extra Strength? Far from it.

Fact is, for **4 out of 5 men** with moderate hair loss, Rogaine Extra Strength for Men is proven to regrow hair or at least stop hair loss.**

4 out of 5: those are nice odds. And when you factor in our Money Back Guarantee, you really can't lose!


John McEnroe, tennis legend

It works for you or your money back.

Give Rogaine Extra Strength a chance to work for you. Use as directed for 4 months. Then you be the judge. If you haven't begun to regrow hair by then, or at least stopped your hair loss, we'll give you your money back. Terms: Register with us and save original receipts and cartons. If not satisfied, submit your claim within 30 days after 4-month trial. One refund per household, up to \$135. For details see store or www.rogaïne.com.

**While most men will respond to Rogaine, most will not respond as well as John.*

***About half of the men who respond to Rogaine have moderate to dense regrowth. The other half at least stop their hair loss.*

Use only as directed. Individual results vary. Not everyone responds to Rogaine.



Who's ins

Brenda Van Keuren
Northern Arizona University

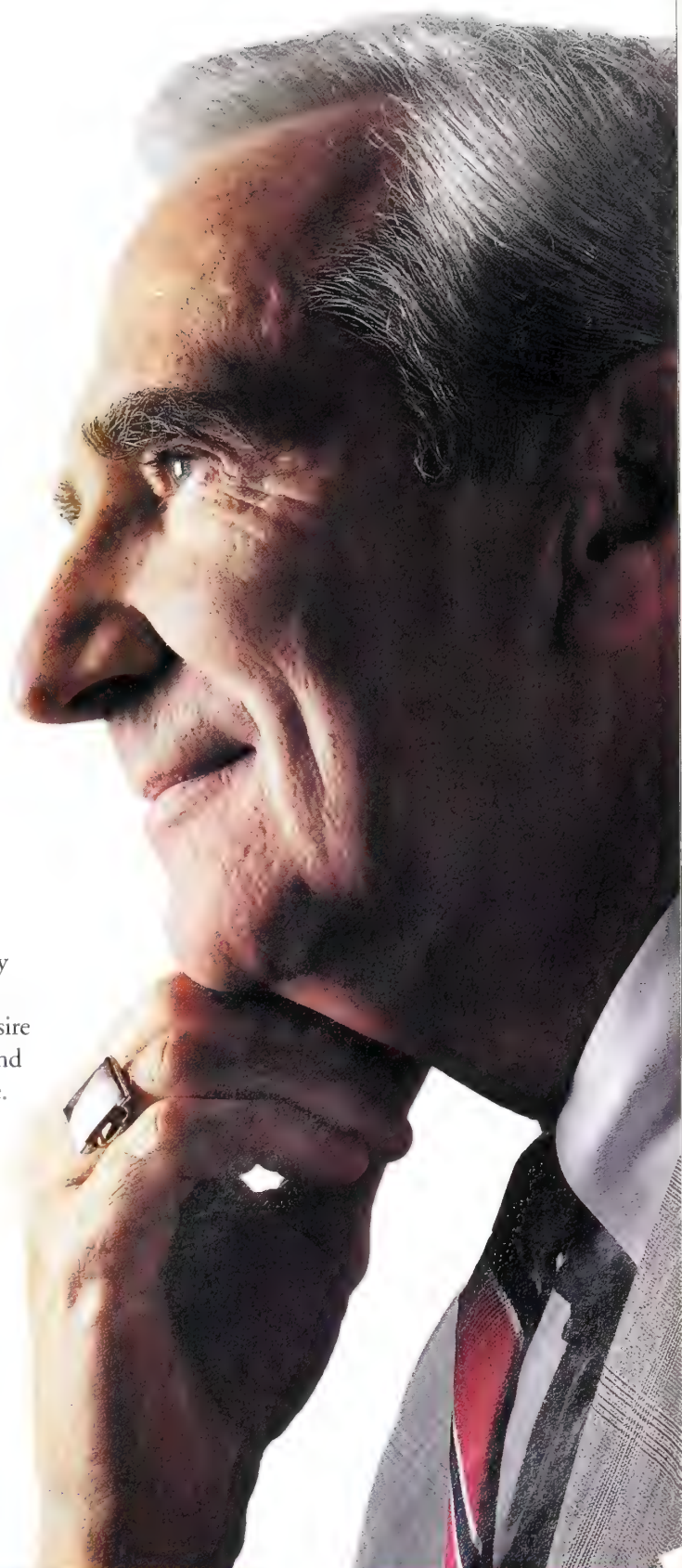
"I'm not sure what was more exhilarating — presenting a year's worth of hard work and effort in 20 short minutes, or seeing the likes of Donald Soderquist in the audience. After he talked to us about our presentation and our mentoring of students. It's not every day a college student in Flagstaff gets to chat with a leader of one of America's most successful companies. The experience was inspiring."

ng who?

l G. Soderquist
Chairman and Chief Operating Officer,
Art Stores, Inc.

"SIFE students like Brenda inspire me. The way they breathe the entrepreneurial spirit. SIFE students are because they have a passion for free enterprise and a desire to make a difference in their communities. Their dedication and hard work make them better business leaders and better people. Every time I get a chance to speak with a SIFE student like Brenda, I feel inspired. I return to work with renewed passion."

people achieve their dreams
through free enterprise education."
1-800-677-SIFE.



Customer Relationship Management



Whether your customers are delighted,
or simply delighted to leave, revolves
around knowing your customer data.

Profile customers

Assess marketing ROI
analyze churn, and more

Award-winning data
warehousing capabilities

Fully Web enabled

Year 2000 compliant

That's why you need the SAS[®] Solution

Who are your most profitable customers...and why? How many customers are you losing... and why? What value do your customers see in your products and services...or those of your *competitors*? Instead of just storing your customer data, explore all the possibilities with the SAS Solution for Customer Relationship Management.

It's the only software that integrates the full scope of managing customer relationships. Collect information at all customer contact points...then analyze data to better understand customer needs. Refine business strategies around your most profitable customers. Determine lifetime customer value. All by just pointing and clicking.

To find out more, and request a free *Guide to Customer Relationship Management with the SAS[®] Solution*, visit us at www.sas.com/crm

SAS SAS Institute
The Business of Better Decision Making

www.sas.com/crm E-mail: bw@sas.com Phone 919.677.8200

SAS is a registered trademark of SAS Institute Inc. Copyright © 1998 by SAS Institute Inc.

THE BUSINESS WEEK BEST-SELLER LIST

HARDCOVER BUSINESS BOOKS

- THE 9 STEPS TO FINANCIAL FREEDOM** by Suze Orman
Crown • \$23) *Practical and "spiritual" steps for managing money.*
- THE ROARING 2000s** by Harry S. Dent Jr. (Simon & Schuster • \$25) *Why the good times won't go away.*
- THE JOY OF WORK** by Scott Adams (HarperBusiness • \$22) *Office pranks and ploys to fend off the cubicle blues.*
- THE ELECTRONIC DAY TRADER** by Marc Friedfertig and George West (McGraw-Hill • \$34.95) *Hopping in and out of the market electronically.*
- THE 48 LAWS OF POWER** by Robert Greene and Joost Elffers
Viking • \$24.95) *Thoughts of Machiavelli, Talleyrand, and other power brokers distilled.*
- SELLING THE INVISIBLE** by Harry Beckwith (Warner • \$16) *A collection of bite-size lessons on marketing.*
- HOW TO BECOME CEO** by Jeffrey J. Fox (Hyperion • \$15.95) *Concise rules for getting ahead.*
- LOSING MY VIRGINITY** by Richard Branson (Times Business • \$27.50) *Sex, business, and rock 'n' roll, from the airline and music company executive.*
- THE 22 IMMUTABLE LAWS OF BRANDING** by Al Ries and Laura Ries (HarperBusiness • \$23) *Building public consciousness of your products.*
- NEW RULES FOR THE NEW ECONOMY** by Kevin Kelly
Viking • \$19.95) *Lessons of the wired world applied to the global economy.*
- WINNING EVERY DAY** by Lou Holtz (HarperBusiness • \$25) *Follow your dream, says the University of South Carolina's new coach.*
- WORKING WITH EMOTIONAL INTELLIGENCE** by Daniel Goleman (Bantam • \$29.95) *You, too, can become a star performer.*
- CUSTOMERS.COM** by Patricia B. Seybold with Ronni T. Marshak (Times Business • \$27.50) *A consultant's analysis of successful E-business practices.*
- GUTS** by Robert A. Lutz (Wiley • \$24.95) *Chrysler's ex-president on the company's second renaissance.*
- ACK WELCH AND THE GE WAY** by Robert Slater (McGraw-Hill • \$24.95) *Managing General Electric's "boundaryless" organization.*

PAPERBACK BUSINESS BOOKS

- 1 THE MILLIONAIRE NEXT DOOR** by Thomas J. Stanley, PhD, and William D. Danko, PhD (Pocket Books • \$14) *The simple ways of the wealthy among us.*
- 2 THE SEVEN HABITS OF HIGHLY EFFECTIVE PEOPLE** by Stephen R. Covey (Fireside • \$14) *Habitually popular.*
- 3 AGAINST THE GODS** by Peter L. Bernstein (Wiley • \$14.95) *Risk management in the making of the modern world.*
- 4 DIE BROKE** by Stephen M. Pollan and Mark Levine (HarperBusiness • \$14) *Forget about the will—and the conventional wisdom, says a financial adviser.*
- 5 THE 1999 WHAT COLOR IS YOUR PARACHUTE?** by Richard Nelson Bolles (Ten Speed Press • \$16.95) *The enduring job-search bible.*
- 6 THE MOTLEY FOOL INVESTMENT GUIDE** by David and Tom Gardner (Fireside • \$12) *The online duo puts it on paper.*
- 7 BARRON'S DICTIONARY OF FINANCE AND INVESTMENT TERMS** by John Downes and Jordan Elliot Goodman (Barron's • \$11.95) *What is an oligopsony anyway?*
- 8 THE WALL STREET JOURNAL GUIDE TO UNDERSTANDING MONEY AND INVESTING** by Kenneth M. Morris and Alan M. Siegel (Fireside • \$14.95) *Concise explanations enriched with graphics.*
- 9 THE MYTH REVISITED** by Michael E. Gerber (HarperBusiness • \$15) *Starting and maintaining a small business.*
- 10 DON'T SWEAT THE SMALL STUFF AT WORK** by Richard Carlson, PhD (Hyperion • \$11.95) *Methods for minimizing stress and conflict.*
- 11 GETTING TO YES** by Roger Fisher, William Ury, and Bruce Patton (Penguin • \$12.95) *A Harvard team's step-by-step guide to conflict resolution.*
- 12 THE MOTLEY FOOL INVESTMENT WORKBOOK** by David and Tom Gardner (Fireside • \$12) *"So where do I find stocks?" and other queries, asked and answered.*
- 13 THE GOAL** by Eliyahu M. Goldratt (North River Press • \$19.95) *Bringing company strategies in line with your No. 1 purpose: making money.*
- 14 BUILT TO LAST** by James C. Collins and Jerry I. Porras (HarperBusiness • \$15) *How 3M, Wal-Mart, Procter & Gamble, and others became standouts.*
- 15 INVESTING FOR DUMMIES** by Eric Tyson, MBA (IDG Books • \$19.99) *From stocks to small business—with cartoons, too.*

BUSINESS WEEK's Best-Seller List is based on a survey of chain and independent booksellers that carry a broad selection of books on economics, management, sales and marketing, small business, investing, personal finance, and careers. Well over 1,000 retail outlets nationwide are represented. Current rankings are based on a weighted analysis of unit sales in November.

Reviews and more are available on AOL (Keyword: BW) or www.businessweek.com (Click on BW Plus!)

HOT TYPE

WHEN ROBERT A. LUTZ WAS PASSED OVER AS Lee A. Iacocca's successor at Chrysler in 1992, few observers expected him to stick around. It would be impossible, they reasoned, for the maverick executive to find satisfaction as second-in-command to Robert J. Lutz, the former General Motors Corp. executive who did get the job. But Lutz surprised everyone. Not only did he stay for more than three years, but he also helped steer the company through a remarkable turnaround. Lutz has retired from Chrysler after serving as president and vice-chairman. Now, Lutz has written a book on that time, *Guts*, the 444th hardback on this month's best-seller list. Lively, witty, and refreshingly candid, it meshes the story of how Chrysler

survived its second brush with bankruptcy, in the early 1990s, with Lutz's advice on how to foster creative chaos without plunging a company into anarchy.

But don't look for a long personal account of Chrysler's comeback. That's quickly covered in the first couple of chapters. Lutz spends the rest of the book advising organizations on how to foster cultural change. And much of the account is tongue-in-cheek, including some of "Lutz's Immutable Laws of Business."

Lutz, by the way, is still unpredictable. In November, after just a few months in retirement, the 66-year-old took a job as chief executive of car-battery maker Exide Corp. Go figure.

BY JOANN MULLER

Today, 50,000 people
will sign up for
cell phone service
(can your mother
be far behind?).

148 million people
might hop on
the **Internet**.

900 million
voicemail
messages will be le
(not necessarily
returned).

time it
o read
million
ls
sent.

There's a communications
revolution going on.
And **one company**
is right in the center of it.

Lucent Technologies
Bell Labs Innovations

600 Mountain Avenue
Murray Hill, NJ 07974-0636
www.lucent.com
1-888-4-Lucent



We make the things that make communications work.™

BY STEPHEN H. WILDSTROM

FREWARE? WHAT'S NOT TO LIKE?

Not much. Open-source programs may spur more choice and competition

Ask a software company what it regards as its most valuable asset and the answer will probably be "our source code." The reason is simple: With these instructions, written in a programming language such as C++, a software engineer can clone the program, and copyright laws offer minimal protection.

So why are some leading companies, including Sun, Netscape, IBM, and 3Com creating "freeware" by giving away critical source code? And what does the open-source movement mean for us non-programmers?

To answer the last question first: A quiet revolution sweeping the software industry could in time give us better programs, largely through more competition and choice. The force driving the change, as it is in so many areas of technology, is the Internet. From the beginning, the Net has been based on standards and software that were open and freely available to all comers. Even now that Net traffic is overwhelmingly commercial, such programs are responsible for moving nearly all E-mail and for the directory system that lets computers find each other.

Software companies are getting interested in open source for varying reasons.

For some, it's an experiment or a way to be in position if the open-source movement takes off. For 3Com Palm Computing, it's a way to get others to write software for its Palm handheld. Sun Microsystems Inc. is responding to pressure to loosen its control over its Java language, which is supposed to allow programs to run on different types of computers.

The open-source move-

and maintains it can produce better software than Microsoft's well-paid minions. On the down side, Linux has a mind-numbing installation procedure—it took me hours of work to get a system running—and few off-the-shelf applications. But companies that have tried it in a variety of server chores, such as running Web sites or acting as an E-mail post office, have found it far less crash-prone than Microsoft's \$1,000-a-copy Windows NT. When bugs do turn up, fixes are quickly posted to the Internet, sometimes within hours, and software support for new hardware often appears within days, vs. months for NT.

Recently, a number of major companies have made significant commitments to Lin-

Windows. The company said, should "deny [open source] projects entry to market" by altering Internet standards to favor Windows.

Valloppillil's memo, which has become known as Halloween Document (available at www.opensource.halloween.html), argues because open-source programs are written by amateurs for engineers, "will never provide the of-use requirements of average desktop user." It may be about to change.

FREE MONEY? In early 1998, Netscape Communications Corp. turned the source of its Navigator browser to an organization called Mozilla.org and invited developers to improve it. The results will be incorporated

Communicator 5.0, scheduled for release in 1999. Mozilla.org already developed a version of Navigator that can run on about any platform, including set-top boxes and handhelds.

For open source to become a major force in consumer software, companies will have to find a way to make business out of giving products away.

One way is to charge for service and support for free software. Another is by licensing and selling open-source products under a trusted brand name. A third is by selling enhanced versions of open-source products.

These models may not appeal to companies used to Microsoft's gross margins; they could be very attractive for consumers. Open source has quickly gone from a pure curiosity to the object of intense corporate interest. It remains to be seen how this will change the software industry. But if it puts better software on our desktops, all for it.



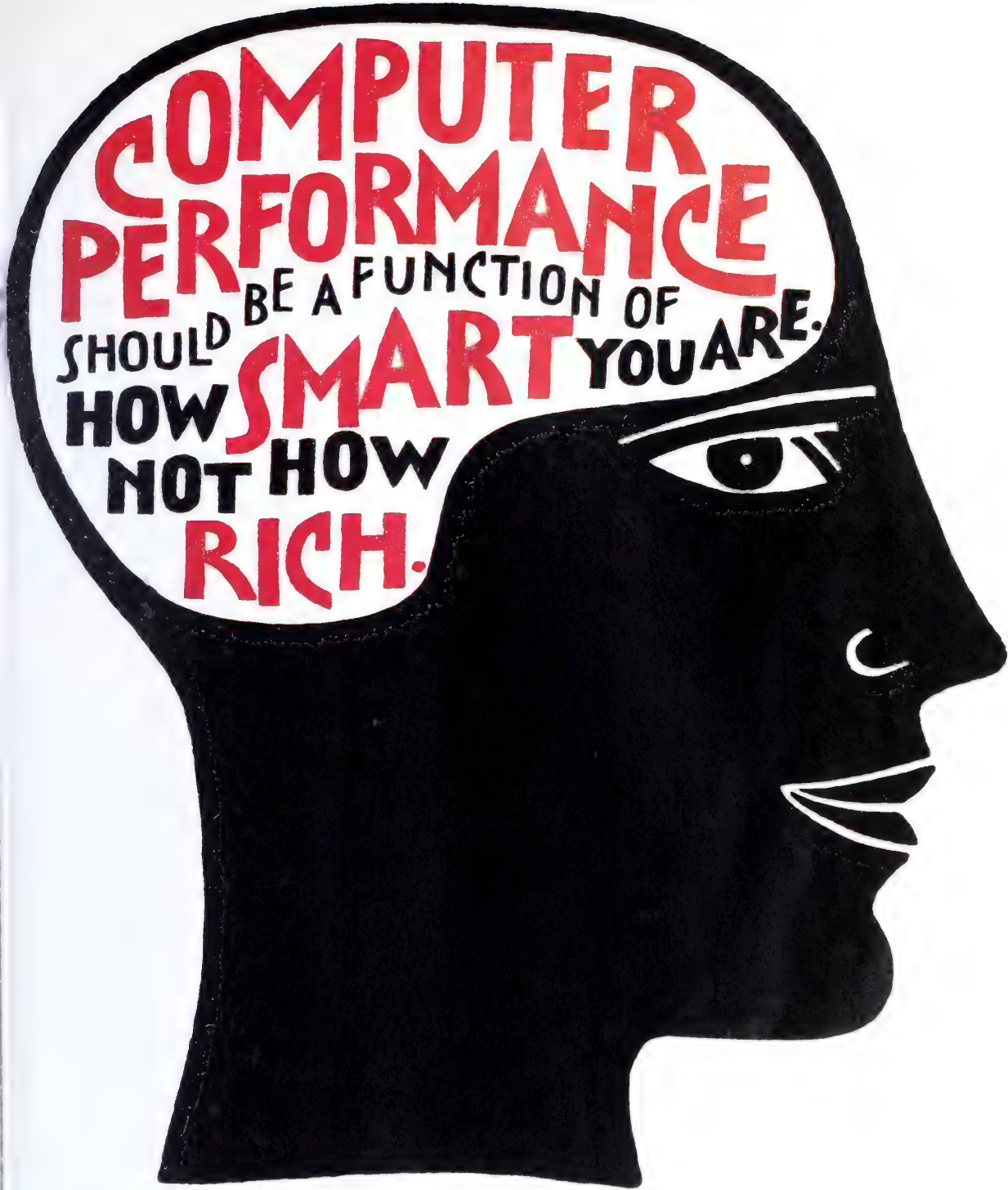
ment was given a huge boost by the success of the Linux operating system, a variant of Unix that runs on the same inexpensive PCs as Windows. Linux was written in the early 1990s by Linus Torvalds, then an undergraduate at the University of Helsinki, and is maintained and updated by a loose army of programmers.

Linux makes the strongest case for the somewhat improbable claim that the army of volunteers that updates

ux. Intel Corp. has taken an equity stake in Red Hat Software, which distributes and supports Linux. Corel offers Word Perfect Office for Linux, and IBM and Oracle say they will make database software available for Linux.

The enthusiasm is definitely not shared by Microsoft. In an internal document that leaked out at the end of October, Microsoft engineer Vinod Valloppillil argued that Linux and other open-source programs are a threat to

QUESTIONS? COMMENTS? E-mail tech&you@businessweek.com or fax (202) 383-2125



It is our mission to help create a democratic computer society where the currency is brains, not money. Where those who were denied access are now free to use the Internet and run the latest multimedia applications. Cyrix[®] has made this possible with powerful processors that make the mind-expanding capabilities of the PC available for well under \$1,000.

ut compromise. We are the only chip maker totally dedicated to this proposition. Visit www.cyrix.com.

o check out the new Cyrix processor-based Compaq Presario, NEC and Packard Bell systems.

rful PCs to the people.

Cyrix
a National Semiconductor Company

THE LIBERATION OF INFORMATION.™

Cyrix is a wholly owned subsidiary of National Semiconductor Corporation. Cyrix is a registered trademark of NMEI Inc. The Liberation of Information is a registered trademark of this Corporation. All other brand or product names are trademarks or registered trademarks of their respective holders. ©1998 Cyrix Corporation. All rights reserved.

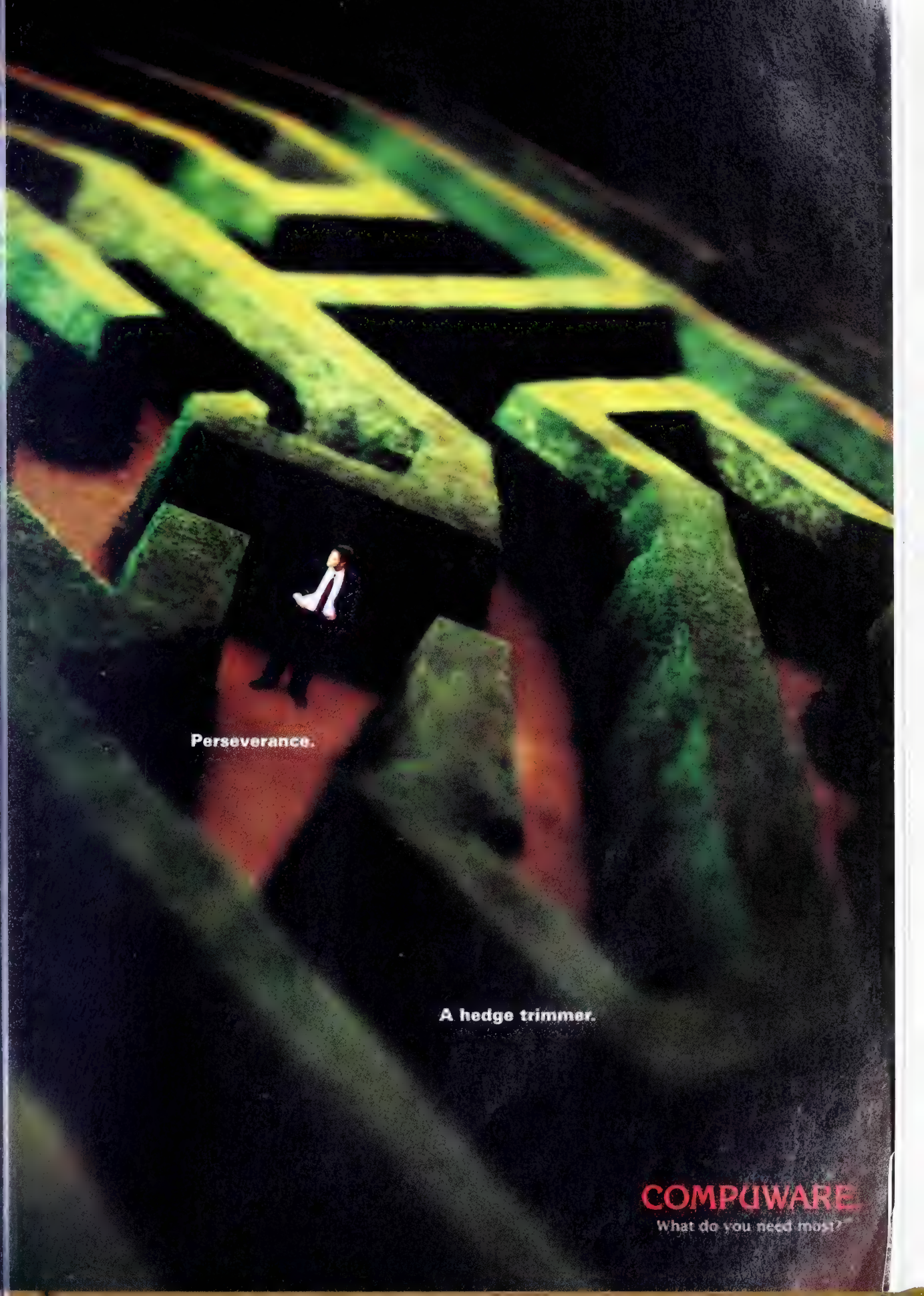
WHEN YOU FIND YOURSELF IN A PREDICAMENT
LIKE THIS, THERE ARE CERTAIN THINGS YOU NEED.

Will.

Ingenuity.

© 1999 Compuware Corporation 800.368.4326 compuware.com

Sometimes the right answer is deceptively simple. No matter how basic or complex your information technology problems, we can resolve them, just as we do for four out of five of the world's largest companies. We never stop asking what do you need most? People and software for business applications.

A man in a dark suit and white shirt stands in the center of a complex, dark green hedge maze. The maze's paths are illuminated with a warm, reddish-orange light, creating a stark contrast with the dark green hedges. The overall atmosphere is mysterious and challenging.

Perseverance.

A hedge trimmer.

COMPUWARE
What do you need most?

BY LAURA D'ANDREA TYSON

AN IMPEACHMENT TRIAL WOULD PUNISH THE ECONOMY



NO DEALS:
The sort of centrist compromises that have served the expansion well would be history, as would investor confidence

Laura D'Andrea Tyson is dean of the Haas School of Business at the University of California at Berkeley and was President Clinton's chief economic adviser.

Could a protracted Senate hearing on the impeachment of President Clinton and an eviscerated Clinton Presidency, whatever the hearing's outcome, have adverse economic consequences? Absolutely not, say some commentators. But they are wrong. The impeachment process carries two risks for the American economy: the loss of effective centrist leadership in forging both domestic and international economy policy and the loss of market confidence in the predictability of the American political system.

Admittedly, many factors other than Presidential leadership have contributed to the outstanding performance of the American economy during the last six years. Dramatic changes in technology have fostered a boom in business and consumer spending. And with Alan Greenspan at its helm, the Federal Reserve has charted a judicious policy for balanced growth. But surely history will also give some of the credit for the economy's success to Clinton.

His 1993 economic package—passed without a single Republican vote—reversed years of escalating budget deficits and gradually restored the credibility of the federal government in domestic and global capital markets. Repeatedly, Clinton used his political skills to forge centrist compromises that cut the deficit while protecting the basic commitments of safety nets like Medicare and Medicaid and increasing spending on education. He blocked large tax cuts on the grounds that the fragility of America's long-term budget health and its low savings rate made such cuts reckless. But he also restored a greater degree of progressivity to the tax code to offset growing income inequality. It was the climate of fiscal responsibility fostered by Clinton that allowed the Fed to follow an easier monetary policy.

LOST OPPORTUNITY? Now, impeachment is undermining Clinton's ability to lead Congress toward bipartisan compromises on Social Security and Medicare. The budgetary surpluses of the next decade provide a window of opportunity for "saving Social Security first," as the President has urged to wide popular support. But the impeachment debate has drowned out promising hints of a possible bipartisan deal involving partial diversification of Social Security's assets into equities and the creation of supplementary private retirement accounts funded by projected surpluses.

And it is hard to imagine that Congress will pay much attention to the recommendations of the National Bipartisan Commission on the Future of Medicare scheduled for spring of 1999 as long as the Senate's energy is sapped by impeachment hearings. Unfortunately, there are no painless solutions to the long-term financing problems of Medicare and Social Security. But the sooner we take action, the smaller the sacrifices required. **TRICKIER SAILING.** On the international front, too, Clinton's weakened position will limit his ability to help devise solutions to global problems. It's true that members of Congress from both sides of the aisle have challenged his efforts to liberalize trade. That fast-track authority to approve trade agreements has been dead in the water some time. Still, Clinton has shown himself able to muster support in the past—with the record-breaking number of trade agreements his Administration has negotiated. Besides, too, the hard-won battle to increase U.S. funding to the International Monetary Fund by \$18 billion. Now, the Presidential initiative to establish a contingency financial program to help sound economies ward off market turbulence might stall. And if conditions destabilize in 1999, financial markets will yearn for global leadership.

Indeed, a Senate impeachment trial to remove a popular President will add uncertainty to already jittery financial markets. So far, it's true, they seem to have been able to shrug off events in Washington. But that may be because there's been so much other news around.

The coming year, though, may be difficult. Already, a slowdown in sales, a weak outlook for corporate profits, and downward pressure on the dollar are risk factors. In such an environment, a sudden decline in investor confidence in U.S. assets or a sudden move from the dollar could trigger a sizable market correction that if sustained, could trigger a U.S. economy into recession. That in turn would dim prospects for growth in emerging markets struggling to recover from deep recessions of their own.

Historians worry about the implications of the Senate impeachment trial for the institution of the Presidency and for the interpretation of the Constitution itself. But the implications for the health of the American economy should also be a source of concern.

A black and white portrait of Louis F. Storz, a middle-aged man with light-colored hair, smiling. He is wearing a dark suit jacket, a white shirt, and a dark tie with a subtle pattern. The background is blurred, showing what appears to be an industrial or office setting.

Louis F. Storz,
senior vice president,
Nuclear Operations
PSE&G,
talks about
Dale Carnegie Training®

Culture change: "Dale Carnegie Training® had a lot to do with the transformation of this organization from a negative, low-productivity workforce to one that finds ways to get the job done."

Empowerment: "People achieved goals previously viewed as impossible."

Teamwork: "Dale Carnegie Training® created an atmosphere in which people could talk openly to each other. This enhanced teamwork and gave people more confidence in their role as leaders."

Self-confidence: "I saw Dale Carnegie Training® reinforcing people's belief in themselves. It allowed for a renewal of self."

To read more of PSE&G's story—
and to see how you can give your
employees this kind of edge—
visit our web site at:
www.dalecarnegie.com

You'll learn about all of our training
options, including team-building,
leadership, and relationship selling.
Or, to find the licensed representative
nearest you, contact us:
1-800-231-5800 Ext. 707
www.dalecarnegie.com



DALE CARNEGIE®
TRAINING

Recognized by the American Council on Education and accredited in the U.S.
and Canada by the Accrediting Council for Continuing Education & Training.
Copyright©1998 Dale Carnegie & Associates, Inc. All rights reserved.



"You've got mail."

How Karl Schab came to buy a new Saturn.

After nearly two years of working in Russia, Karl Schab was ready to come home.

But first he was going to need a car.

So Karl did what any intelligent engineer assigned to the international space station project in Moscow would do—he went into cyberspace and contacted the Saturn Web site.

As a former Saturn owner, Karl knew pretty much what he was looking for. What he didn't know was how to make everything happen from 5,536 miles away so that his new car would be waiting for him when he returned home to Colorado Springs.

Enter Saturn sales consultant Larry Marr. After several e-mails back and forth, Larry had answered all of Karl's concerns, even explaining many of the finance options available. And on February 6, 1998, at 12:51:46 (Moscow time) Karl Schab ordered a brand-new Saturn online.



The best part is this isn't a special-circumstance scenario. Anytime, anywhere, a computer can browse, compare options, consult the interactive financing center, even apply for financing, all by simply logging onto www.saturn.com.

And as always, let us know how we can help, or if we can answer any questions. We have also e-mailed you.

A DIFFERENT KIND OF COMPANY. A DIFFERENT KIND OF CAR.

The 1999 Saturn SC 2 comes with an MSRP of \$15,445, including A.C. retailer preparation and destination. Of course, options, tax and license are extra. We'd be happy to provide more information.

1-800-522-5000, or visit us on the Internet at www.saturn.com. ©1999 Saturn Corporation. "America Online," "AOL" and "You've Got Mail" are all trademarks of America Online, Inc.



SATURN

BY MIKE McNAMEE

A BIG BREAK FOR BIG CAPS?

Institutions find them less hassle

The companies that make up the Standard & Poor's 500-stock index have dominated the long bull run of the 1990s: The S&P 500 has risen about 247% since the start of 1990, vs. 160% for S&P's index of 600 small-cap stocks. The conventional view is that the rise of global opportunities and massive restructuring have made big companies far more attractive to investors than small ones.

Two Harvard University economists have a simpler explanation: Institutional investors increasingly dominate the market, and big institutions like big-company stocks. In a National Bureau of Economic Research paper, Andrew P. Metrick of Harvard and Paul A. Gompers of the Harvard business school point out that firms that manage \$100 million or more in securities controlled 51% of the capitalization of U.S. stock markets at the end of 1996, nearly double their 27.6% share in 1980 (chart).

THE RISE OF INSTITUTIONS



The rise has been powered by the growing popularity of mutual funds, whose holdings tripled, from 8.2% to 25.3%; and investment advisers, including those that manage most pension funds, up from 21.2% to 37.2%.

Institutions need to move lots of money, preferably without holding more than 5% of any company's stock—the level at which a shareholder is treated as an insider. It's easier to focus on big stocks. But the researchers predict that institutions' share of the market will stop growing eventually, so small stocks could outperform large caps—as they did from 1927 to 1980.

HOW CHILE ICED HOT MONEY

Investors no longer park overnight

Chile's controls on short-term investments from abroad are hailed as a model for small countries that want to avoid getting caught up in the next global financial crisis. A new study by Sebastian Edwards of the University of California at Los Angeles says that controls—coupled with Chile's flexible exchange rate—did help Santiago avoid financial "contagion" in the wake of Mexico's 1995 financial crisis.

Under the controls, foreign investors were required to put 30% of their funds in a non-interest-paying account with the Chilean central bank for one year. The goal: to keep out the foreign capital that might be attracted by Chile's high interest rates while the central bank fought inflation. In fact, Edwards says, Chile's rates were so high—averaging 13% from 1992 through June 1998—that foreigners swallowed the penalty and invested anyway. But the controls shifted the mix of investment toward longer-term funds, whose returns were less affected by the one-year withholding. As a result, unlike Argentina, which had to raise rates to 25% to retain capital after Mexico's near-default, Chile's rates were unaffected. And Chile made so much progress against inflation—which fell from 15% in 1992 to 3% in early 1998—that it lifted the controls in 1997.

DEATH, TAXES, AND THE RICH

Why don't they give while alive?

Judging from the political furor over estate taxes—"death taxes," in the lingo of opponents—wealthy Americans might be expected to go well out of their way to minimize the tax bite on their heirs. But a new study shows that the rich largely overlook the simplest way to reduce estate taxes: Giving away their property while they're alive.

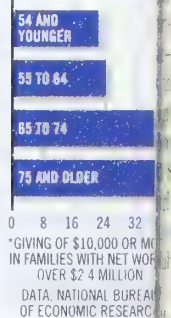
Fewer than half of the elderly wealthy who could be subject to the estate tax make even \$10,000 a year in overall gifts to family members, says economist James M. Poterba of the Massachusetts Institute of Technology (chart). And even many of those givers neglect to take full advantage of tax-free gifts, which can total \$10,000 a year to each child or grandchild.

Grants of more than \$10,000 per recipient per year are subject to a gift tax. But even at the 55% top rate, making gift is cheaper than leaving funds in estate. Take a benefactor who has exhausted the \$10,000 annual exemption per recipient and has \$100,000 more to give. He or she can give \$64,500 and use the rest to pay the gift tax, while the same \$100,000 in an estate would net the heirs only \$45,000.

Why don't the wealthy take advantage of these breaks? "The low-wealthy are afraid they'll need their resources for health care," says Poterba. Rules that let heirs escape capital-gains taxes on inherited assets also create an incentive to hang on to appreciated property. But even among the superrich, he says, "there's just a reluctance to give up control of assets—even if the transfer would lead to substantial tax savings."

GIFTS BY THE RI

PERCENTAGE OF WEALTHY PEOPLE WHO GIVE TO FAMILY MEMBERS*



THE BRAINS COMING ASHORE

Legal immigrants are high-skill

Most studies of foreign-born workers mix legal and illegal entrants and find that immigrants' job skills are declining. But in a National Bureau of Economic Research paper, a team by New York University sociologist Guillermina Jasso separated out legal migrants, examining federal records of all legal entrants from 1972 through 1996. Their finding: For most of the last 25 years, the job skills of male legal immigrants have exceeded those of native-born male workers—and since 1986, legal immigrants' skills have been rising (Jasso did not look at females.)

Changes in immigration laws explain much of the trend. A 1976 law to visas to foreign physicians pushed up immigrants' average skill levels. But have since risen because of laws passed in the 1980s to boost the number of visas available to highly skilled workers and crack down on fraudulent marriage immigrants trying to get around quotas. Better education in countries of origin has also contributed.

AMES C. COOPER & KATHLEEN MADIGAN

THIS NEW YEAR'S HANGOVER DOESN'T HURT

Consumers' holiday splurging should help keep growth on track

U.S. ECONOMY The widely anticipated slowdown in the U.S. is still more fast than fact. Indeed, yearend reports portray an economy headed into the new year under a full head of steam. Although the data are far from complete, fourth-quarter economic growth appears to have been quite strong—on the order of 3% or more. That would follow the third quarter's revised 3.7% pace, which matched the growth rate in the first half.

Some of that momentum is carrying over into early 1999. Shoppers gave retailers a good holiday season, although it did not meet high expectations. Based on the low yearend level of initial unemployment claims, labor markets still look tight. And factory orders and that capital spending on equipment is holding manufacturing continues to suffer from weak demand, but that was true all year. The trade deficit has nonetheless narrowed in recent months, but may be a blip instead of a new trend.

However, maintaining 1998's powerful impetus throughout 1999 will not be easy. Last year, the obstacles to growth were all foreign-based, and potent domestic demand easily overrode them. But the coming year promises more home-grown challenges. As profit-starved companies seek to cut costs—and as recently announced layoffs become real—growth in household income will slow and capital markets will get squeezed. Also, foreign demand will remain in the doldrums, although the drag will be less intense. This scenario is not a recipe for recession, but it does present significant constraints on growth in 1999.

IT IS NOW, CONSUMERS ARE STILL the economy's driving force. The two factors that drove spending throughout 1998 continue to fuel outlays: Strong labor markets are supplying wage growth, and accommodative financial conditions are offering low interest rates and a strong stock market. Until some cracks appear in these fundamentals, household spending will stay firm.

Certainly, households remain optimistic about the economy, although not as ebullient as they were in the summer (chart). The Conference Board's index of consumer confidence slipped to 126.1 in December, from

126.4 in November. Consumers' assessments about the current economic situation improved, but expectations fell. That's because households are getting worried about job prospects over the next six months.

However, the job markets still looked healthy at yearend. In mid-December, weekly initial claims for unemployment benefits dropped to 287,000, the lowest in almost a year and a half—and the second-lowest in an expansion now nearly eight years old. The four-week average of claims is actually falling (chart). New claims do tend to be low around the holidays, but these readings are below those at similar times in recent years.

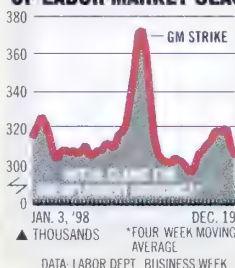
In addition, income was still flowing freely to households in November. Personal income increased by 0.5% in the month, and after adjusting for inflation and taxes, consumer buying power still rose 0.4%. For the fourth quarter, real income is set to grow at a solid annual rate of about 3.5%.

BUT THAT INCOME FIGURE doesn't tell the whole story. Real "paycheck" income from wages and salaries, which comprises about three-fifths of total income, is on track to grow about 5.5% in the fourth quarter, about the same pace as for all of 1998. This measure of income reflects the year's excellent job growth, the acceleration in hourly pay, and very low inflation, and it has been a better indicator of spending. For 1998, consumer outlays will grow in excess of 5%, the strongest performance in any year since 1984.

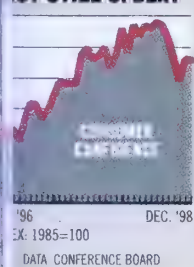
Consumer spending appeared to have cooled off in November, as real outlays for goods and services posted no gain, but that's deceptive. Car and truck sales retreated from October's high level to a merely good showing in November. And warm weather caused a sharp drop in energy demand. Excluding those two factors, real spending rose a healthy 0.3%, led by purchases of furniture, appliances, and clothing.

Continued mild weather in December did hurt holiday sales of apparel. That was a key difference between good and great holiday receipts. Consumers flocked to stores just before and after Christmas looking for deep discounts, and they were not disappointed. Based on the

CLAIMS SHOW NO SIGN OF LABOR MARKET SLACK



MORE CAUTIOUS, BUT STILL UPBEAT



trends of recent years, that bargain hunting is likely to continue into January, spurred on by the drop in oil prices, which means that households will be spending less of their income on heating bills this winter—and more on other items.

CONSUMER SPENDING ISN'T THE ONLY economic sector to end 1998 on a high note, though. Capital spending and foreign trade also look as if they contributed to real gross domestic product growth in the fourth quarter.

Orders for durable goods increased 1% in November, and 1.2% when the volatile transportation sector is excluded. Bookings for nondefense capital goods rose 2.2% in November, while shipments were up 1.2%, the third consecutive gain. These rising trends in capital goods come at an unusual time. Typically, expectations of slower demand prompt businesses to trim, not expand, their capital budgets.

What gives? Part of the explanation may be that companies are still investing in new computers and software to correct possible y2k problems. Electrical machinery shipments have risen at an annual rate of 11.7% so far in the fourth quarter, and new orders are still rising.

Recently strong export gains suggest that foreign demand is also boosting the capital goods sector, but those gains are misleading. Shipments of aircraft, which

tend to be volatile from month to month, helped to exports by about 3% in both September and October. As a result, the total foreign trade deficit for goods and services narrowed to \$14.2 billion in October, from \$14.4 billion in September and a record \$16.7 billion in August. Exports are likely to fall off in coming months as aircraft shipments swing the other way.

One hopeful sign for the trade sector is that the deficit with Asia—which once was in a free fall—may have bottomed out. Data seasonally adjusted by BUSINESS WEEK show that the U.S. trade deficit with Pacific Rim countries in October was the smallest so far in 1998 (chart). And the overall trade deficit began the fourth quarter well below its third-quarter average.

Still, it may be too early to declare a turnaround in trade—especially with consumer demand in the U.S. still so robust. A hefty portion of those marked-down sweaters, electronics, and toys were made by foreign producers. And imports will continue to grow faster than exports as long as U.S. households continue their spirited buying trends. For now at least, the urgent shop shows no signs of waning.

IS THE TRADE GAP WITH ASIA BOTTOMING OUT?



AUSTRALIA

A BRIGHT SPOT ON THE PACIFIC RIM

The 1998 award for resilience goes to Australia. Buoyed by low interest rates, a cheaper currency, and past economic reform, the country has not only survived the Asian crisis—it has thrived.

Before the crisis, 60% of Australian exports went to Asia, and most of those were commodities, whose prices have plummeted. But through the third quarter, the economy grew by 5% from the year-earlier period. A slowdown in 1999 is likely as world growth slips, but prospects remain generally upbeat. The Reserve Bank of Australia (RBA) and the Treasury Dept. recently released their 1999 economic outlook, projecting growth of 3½% through the year

ending June 30, half a point higher than the previous forecast. For the full year, most private forecasters expect growth of 2% to 2½%.

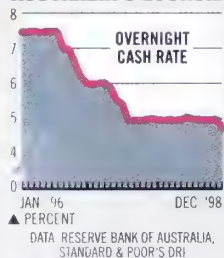
Australia has prospered amid the region's hard times because low inflation has allowed the RBA to cut interest rates by 2½ points since July, 1996. The latest cut, on Dec. 2, took the benchmark rate to 4½%, the lowest in more than four years (chart). The moves have fueled consumer demand, homebuilding, and business investment. Also, the Australian dollar fell to a record low of 55.3¢ U.S. in August, continuing a 1½-year drop that has cut some 30% off its value. The surge in competitiveness

has allowed exporters to find markets outside of Asia, more than making up for revenue losses resulting from the slide in commodity prices.

The 1999 outlook does have its negatives: Inflation, which has been below 2% since mid-1997, will edge up, although it should remain in the 2% to 3% target range set by the RBA. And amid slower growth, unemployment will remain near 8%. Moreover, the current account deficit is expected to rise to 5.5% of gross domestic product, from just under 5% in 1998, as exports soften.

However, investors remain comfortable with Australia's prospect, especially since the conservative government has returned the budget to surplus for the first time in seven years, giving the RBA room for further rate cuts.

LOWER RATES FUEL AUSTRALIA'S ECONOMY



COMPUTER? OR VERY HEAVY BUTTERFLY? WELL, WE CAN'T ANSWER FOR SURE. (PERHAPS THE BUTTERFLY JUST FINISHED A BIG MEAL.) WE CAN TELL YOU THAT AT A MERE 3.7 POUNDS AND 0.9 INCHES, OUR NEW PEDION™ EM IS ONE OF THE LIGHTEST AND THINNEST NOTEBOOK COMPUTERS AVAILABLE. AND EVEN WHEN NESTLED INTO ITS DOCKING STATION, THE PEDION EM IS STILL LIGHTER AND MORE MANAGEABLE THAN WHAT YOU'RE PROBABLY USING NOW. WHICH, IN A NUTSHELL, IS HOW WE LIKE TO DEFINE PROGRESS. PEDION EM. JUST ANOTHER SMALL (VERY SMALL) IDEA FROM A COMPANY THAT REFUSES TO THINK SMALL. FOR MORE INFORMATION, VISIT US AT WWW.MITSUBISHIELECTRIC.COM



CAUTION: THIS DEPICTION IS FOR ADVERTISING PURPOSES ONLY. THE PEDION IS NOT DESIGNED TO WITHSTAND THE IMPACT OF A FALL.

 **mitsubishi electric**

WE SEE THE BIG PICTURE.

BAD FOR BUSINESS?

Impeachment gridlock would stall Corporate America's agenda

Washington's nasty, brutish and oh-so-long impeachment saga is starting to grate on Jon A. Boscia. The CEO of Lincoln National Corp., a Fort Wayne (Ind.) money-management firm, isn't saying whether he wants Bill Clinton to be removed from office over the Monica Lewinsky affair, but he's "offended by the partisan nature of [impeachment] in the House." Whatever the President's fate, says Boscia, "it needs to be resolved in a bipartisan fashion...[and] sooner rather than later," lest legislative priorities such as financial-industry modernization get snarled in feuding.

Boscia isn't the only exec suffering from impeachment fatigue. While he's no Clinton fan, Homer Knost, chairman of Arkel International Inc., a Baton Rouge (La.) engineering outfit, also wants closure. Arkel has many foreign contracts, and Knost says U.S. allies "are starting to see this as a bad thing."

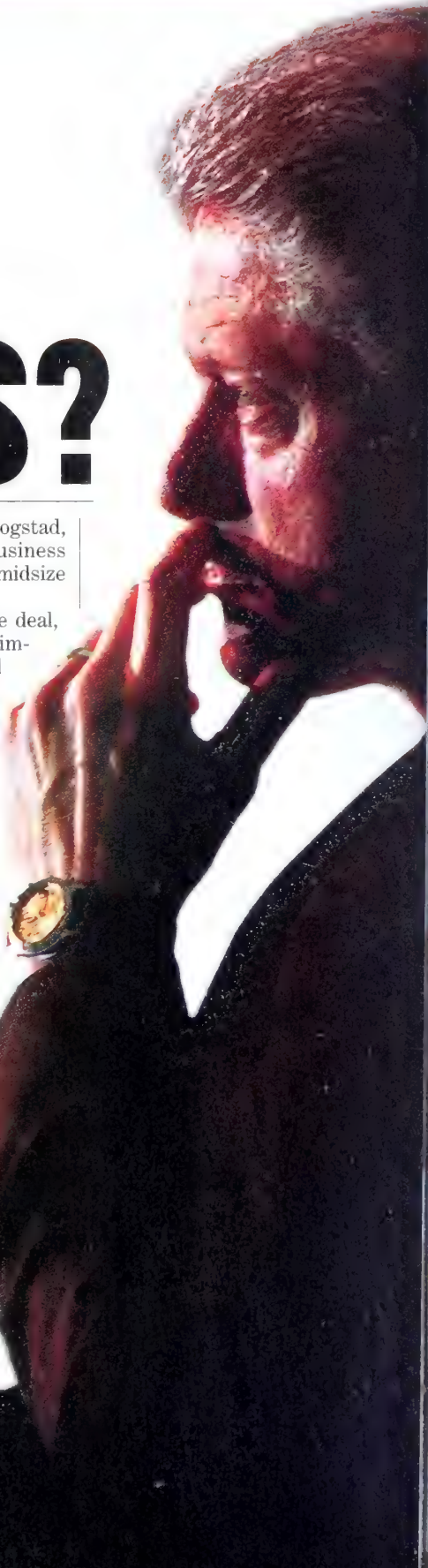
Business lobbyists are worried, too. The longer the President's agonies wind on, they say, the greater the risk that Congress will grind to a halt. "I'm afraid it is going to

be a lost year," sighs Barry Rogstad, president of the American Business Conference, which represents midsize companies.

Despite talk of a swift censure deal, business leaders fear the impeachment won't go away. And Washington insiders who would like to see an end to partisan holy wars are concluding that such a truce is not likely yet (page 40).

PULL THE PLUG. Why? Even though Republicans don't have the 67 votes needed to convict the President, many conservatives say they aren't willing to consider a censure before a trial is conducted. "The accusations against the President are very serious," says Senator Charles T. Hagel (R-Neb.). "We're talking about breaking the law. To short-circuit the trial would set a terrible precedent."

That flies in the face of polls showing that the public wants to pull the plug on impeachment. But hard-liners aren't budging. Even though Senate Republicans are generally less ideological than the firebrands in the House, there are 20 or so GOP members of the upper chamber who are de-



ed to pursue the trial. And all GOP nators are under pressure from conservative activists who have outsize influence in party matters—and who want Clinton out. A lengthy airing of the evidence could, the conservatives reason, erode Clinton's support, even though the House hearings and Independent Counsel Kenneth W. Starr's steamy revelations didn't.

More likely, a long Senate trial might threaten to divide the country and Congress further. An open-ended proceeding poses unknown dangers, warn constitutional experts: Such efforts take on a life of their own, as Starr's investigations did. "The longer the trial lasts, the more

acrimonious it will become," says Senate Minority Leader Thomas A. Daschle (D-S.D.). "We are not immune from the same vindictive partisanship there was in the House."

All this should give President Clinton a huge incentive to cut a deal. But, there's a hitch: Clinton, according to associates, isn't ready to concede that he lied under oath—a crucial demand of many moderate Republicans and Democrats. A grant of immunity from prosecution after he leaves office would probably make a deal possible, but there's no guarantee Starr would go along.

So how might the mess be resolved? Soon after the Senate returns to Washington on Jan. 6, Senate Majority Leader Trent Lott (R-Miss.) will oversee the opening of a trial. Representative Henry Hyde (R-Ill.) and 12 other House "managers" will formally present the two impeachment charges. The White House could get up to a month to re-

spond, and both sides will be able to call witnesses and present evidence. The drama is supposed to end with a vote on each article. But some political pros doubt it will ever get that far. "Lott won't invest much time in an effort where the results are preordained," says Daniel Meyer, former chief of staff to House Speaker Newt Gingrich.

The real action will be behind closed doors, where Lott, Daschle, and White House lawyers try to work out the language of yet another Presidential *mea culpa*. "There's significant support for censure, but it depends on the wording and timing of the resolution," says Daschle.

BUSINESS AS USUAL In pushing for censure, Daschle will count on respected Democrats who can work both sides of the aisle. Among them: Senators Daniel P. Moynihan of New York and Joseph I. Lieberman of Connecticut. He can probably count on support from Utah Senator Orrin G. Hatch, a GOP conservative, and centrist Republican Senators John H. Chafee of Rhode Island, James M. Jeffords of Vermont, and Olympia J. Snowe of Maine. All three face reelection in 2000.

For now, the President is adopting a business-as-usual posture. He is already prepping for his Jan. 19 State of the Union message—to be delivered in the House chamber, where he was impeached. "It's crucial to show we're doing the nation's work while Republicans are engaging in partisanship," says an outside adviser.

As the centerpiece of his address, the President is expected to call for bipartisan action on reforming Social Security. In addition, the Administration will unveil a raft of new tax credits, including one to boost sales of fuel-efficient cars. Along with hikes in funding for his cherished education initiatives, Clinton is expected to ask for a \$200 million annual increase in research funding and a 15% boost in spending on programs for the homeless. Clinton's

Seeking Consensus in the Senate

enate Minority Leader Thomas A. Daschle of South Dakota (top left) will be the Democrats' lead negotiator with Majority Leader Trent Lott of Mississippi (bottom left) in trying to craft a compromise censure resolution. Among those likely to assist: Democrats Daniel Patrick Moynihan of New York, Robert C. Byrd of West Virginia, Joseph I. Lieberman of Connecticut (top row), and Republican Orrin G. Hatch of Utah (bottom row). Usually outspoken, but as yet uncommitted on censure, are Republicans John S. McCain III of Arizona and Don Nickles of Oklahoma.



Tom Daschle
(D-S.D.)



Daniel Patrick Moynihan
(D-N.Y.)



Robert Byrd
(D-W.Va.)



Joseph Lieberman
(D-Conn.)



Trent Lott
Majority Leader (R-Miss.)



Orrin Hatch
(R-Utah)



John McCain
(R-Ariz.)



Don Nickles
(R-Okla.)

only ambitious undertaking is fixing Social Security. But even though he is tilting toward some form of private investments, which Republicans favor, the chances of a sweeping overhaul are slim.

Meanwhile, many items on the business agenda could become casualties of impeachment. "We're concerned about the time available for business issues," frets Thomas J. Donohue, president of the U.S. Chamber of Commerce. And

trust will be scarce, too. "There's cyanide in the water here," says Representative Jerrold Nadler (D-N.Y.). Items in jeopardy: financial modernization, bankruptcy reform, and renewal of fast-track trade negotiating authority. Congress may make a run at reviewing the Telecommunications Act of 1996. But with lawmakers in a partisan sulk, it will be hard to enact changes that boost competition.

Of course, business fears—not to

mention voter anger—could be suaged if the Senate cuts a quick pl bargain with Clinton. But as matt stand, no one—not CEOs, not Hill leers, not White House lawyers—see willing to bet on that happening in capital where combat, not comity, become the norm.

*By Lee Walczak and Amy Borrus
Washington, with Amy Barrett
Philadelphia and bureau reports*

COMMENTARY

By Richard S. Dunham

MAKING PEACE ON THE POTOMAC

Days after the historic party-line vote to impeach Clinton, Ralph Reed, a GOP consultant and former executive director of the Christian Coalition, was despairing. "This time, things have gone too far," he said in an interview.

When the onetime putative head of the party's right wing tut-tuts about partisan bloodletting, you know something significant has happened. Like other plugged-in Beltway veterans, he fears rising voter disgust with the enmity that has paralyzed Washington for months. "There has to be healing—or the country pulls the plug on all of them," warns Bernadette A. Budde, senior vice-president of Business-Industry Political Action Committee.

But how can the healing begin? "Start small," advises Barry K. Rogstad, president of American Business Conference. Mega-jobs that point up differences between the parties, such as rewriting the tax code or Social Security reform, should not be tried first. Education funding, modest managed-care protection, and some small bills—legislation dealing with the Y2K computer glitch, for instance—might make a jumping-off point for the 106th Congress.

GOOD TIMING. The nation can wait a bit for the bigger items. For now, the economy remains strong, and much of the Clinton agenda has been accomplished: the balanced budget, two major trade-liberalization acts, and welfare reform.

What is most important now is for

political leaders to show voters that they are willing to act the part. The probable next House Speaker, J. Dennis Hastert (R-Ill.), could help build trust by granting the minority party some token seats on House committees. Although Democrats picked up five seats this fall, GOP leaders are refusing to improve their

suading liberals to go along with it.

Negotiating a ceasefire in the neo-Puritan sex wars will be tougher. It may require world-class peacemakers, such as former Senate Majority Leader George J. Mitchell (D-Me.), who helped bring the sides together in Northern Ireland. To secure a truce on Capitol Hill, "it will take graybeards," says Heritage Foundation scholar Marshall Wittmann—the likes of ex-Senate Majority Leaders Bob Dole (R-Kan.) and Howard Baker (R-Tenn.), and ex-Clinton Chief of Staff Leon E. Panetta.

OPPORTUNITY. Faced with an increasingly repulsed electorate, Republicans and the President have a common need: They must prove they can actually accomplish things. Clinton wants to repair his tattered legacy, and the GOP needs to mollify angry vo

ers. Says Panetta: "That could create an environment where both the President and Congress rush to show that they can do something—anything." Under this sunny scenario, this Congress might even tackle Social Security, further trade liberalization, and maybe a limited tax cut.

"We've got to move beyond the politics of scandal," says Reed. "Disagreements should be over issues that affect the lives of average citizens." If Reed has tired of the part warfare, isn't it time Trent Lott and Denny Hastert gave peace a chance



BABY STEPS: Congress should avoid big, divisive issues

ratios on key panels, which would be a no-cost proposition. The GOP would still control major committees, as Democrats did for decades. But by giving Dems another slot on panels such as Ways & Means and Commerce, Hastert could buy goodwill at a bargain price.

Democrats must show good faith, too. For starters, they could tone down their rhetoric on Social Security reform. Without that, it is unlikely that any constructive discussion of controversial options, such as partial privatization or raising the retirement age, could take place. Moderates seem willing to drop their scare-the-seniors tactics. The trick will be per-

Dunham covers politics for BUSINESS WEEK in Washington.

TROUBLE BELOW:
*The F-22 is
behind schedule*



AGING

LEAN, MEAN FIGHTING MACHINE IT AIN'T

Lockheed, the world's biggest defense contractor, too big?

snafus keep on coming at Lockheed Martin Corp., and Wall Street keeps on selling. A missile-defense program flops in trials. Delays plague new launches. A new cargo plane faces de-icing tests. Then, a bombshell: the second time in five weeks, the company downgrades earnings forecast for both 1998 and 1999 because it can't get the goods to customers on time. What does Lockheed Martin think it's doing? The same old surprises that have been depressing the aircraft's share price—production glitches, slipping schedules, and expenses against earnings—are showing up on the new F-22. Boeing's, Lockheed's price has been pum- in recent months, and hovering near its 52-week low of \$82, well below \$100 high of last spring. It isn't always this way. In 1997, Lockheed's \$27 billion Bethesda-based company became the world's No. 1 defense contractor by the post-cold-war consolidation, making it a favorite among analysts and the Pentagon. Recent setbacks have cheerleaders asking some tough questions. "Has this company just gotten too big and too complex?" asks Merrill Lynch & Co. aerospace analyst Byron Bolton. Says a top Defense Dept. official, "You can't have 50 priorities—the company suffers." Lockheed Martin President and Chief

Operating Officer Peter B. Teets acknowledges that he and Chairman and CEO Vance D. Coffman face a challenge in managing a company with Lockheed Martin's girth. "Is it easy to manage?" Teets asks. "I'd have to say no." But he insists that size can be a plus—when, for instance, divisions within the company team up to bid for contracts. "There is huge strength in this diversity," Teets says. "My biggest challenge is

WHY LOCKHEED MARTIN IS IN AN EARNINGS DIVE

F-22 RAPTOR The company is trying to raise the price just as the fighter is going into production.

C-130J Late deliveries of the cargo plane—which had difficulty meeting Federal Aviation Administration standards—will cut into 1998 and 1999 earnings.

SATELLITES Delays in both launches and satellite deliveries will also crimp the company's profits and revenues this year.

THAAD Quality-control problems led to five straight test failures for the high-profile Theater High-Altitude Area Defense system.

DATA BUSINESS WEEK

to learn how to harness that strength."

He'd better learn fast, because the behemoth may still be growing. After Lockheed Martin was forced to drop an \$11.6 billion bid for Northrop Grumman last July in the face of government objections, in September it turned around to offer \$2.7 billion for Comsat Corp. And British defense company General Electric PLC says it is talking to Lockheed Martin, among others, about a combination. Teets won't comment, but says the company

is "an interested observer" of transatlantic deals.

Further dealmaking doesn't necessarily sit well with analysts who are now pressing Lockheed Martin management to cope better with what they already own. Admittedly, a GEC deal would give the company entrée to Fortress Europe, Cai Von Rumohr of SG Cowen says. But it also gives management "one more body to regulate."

According to First Call Corp., the consensus of analysts' 1998 projections for the defense titan has shrunk to \$6.22 a share from \$6.65. For 1999, analysts have pared their estimates from \$7.32 to \$6.81, and several are downgrading the stock.

LOSING ALLIES. Another strike against the company is the loss of its congressional champion, outgoing House Speaker Newt Gingrich (R-Ga.). He helped keep the C-130 cargo plane in production—it's built in Marietta, Ga., near his district. Without him, the Pentagon won't speed up orders for the new C-130J. That would cause the cost to Lockheed per plane to rise. As an offset, the company is threatening to tack some of the C-130J overhead onto the price tag for the new F-22. Needless to say, the Pentagon is balking. "We don't intend... to just eat it," says Jacques S. Gansler, the Pentagon's acquisitions chief.

The company's defense side has other problems as well. A missile-defense program to protect troops in the field—a Pentagon priority—has failed five times to intercept a target. And even Boeing bested Lockheed Martin on several defense contracts, including a national missile-defense program. "We are worried" when a supplier as important as Lockheed Martin loses a string of competitions, says Deputy Defense Secretary John J. Hamre.

On the commercial side, satellite-related delays led to a 3% decline in nine-month sales and a 13% drop in profits for the \$7.5 billion Space & Strategic Missiles Sector. And some customers may walk.

For all its problems, Lockheed Martin has its strengths. It's a major player in new technology the Pentagon is eyeing. And it could show its muscle as it competes for the Joint Strike Fighter and other new weapons. But Wall Street is skeptical. "Maybe hope springs eternal," says Merrill Lynch's Callan. "In this case it's hope with a small h."

By Stan Crock in Washington

THE ECONOMY

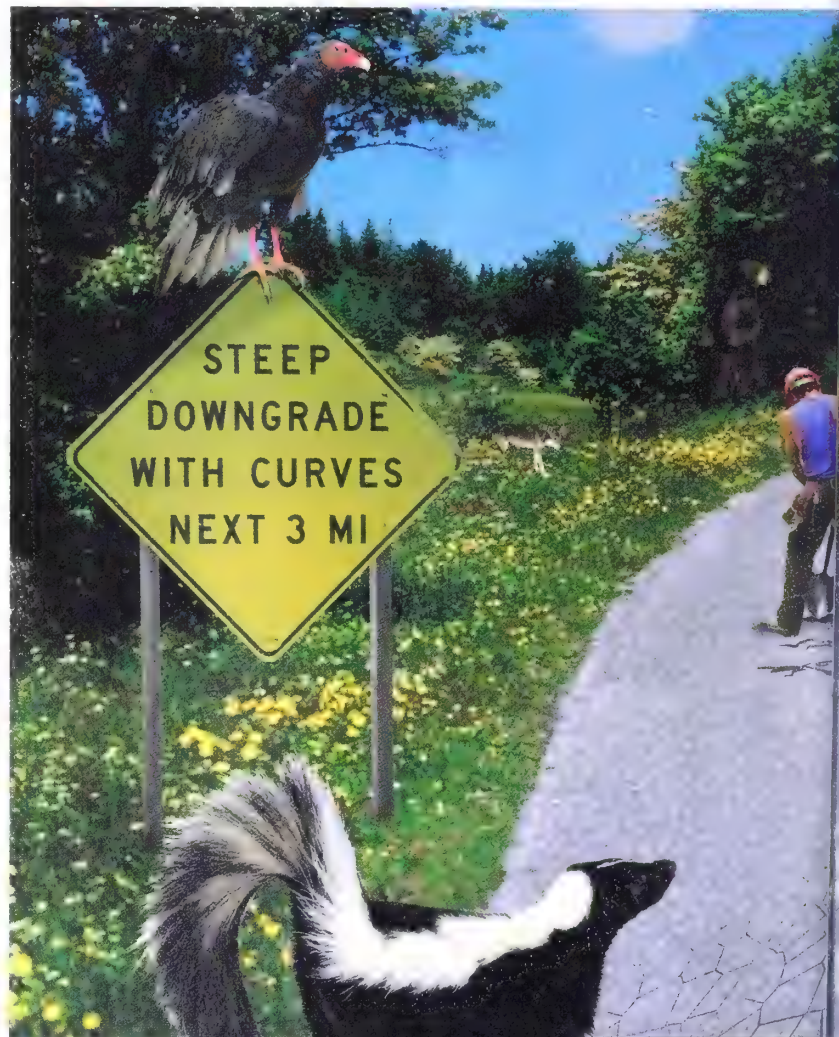
WHY THE FOURTH QUARTER LOOKS LIKE A STINKER

Profits are still historically high, but weak overseas sales, price deflation, and high wages are taking a toll

As 1998 drew to a close, holiday spirit bubbled over on Wall Street. A "Santa Claus" rally took the Standard & Poor's 500-stock index and the NASDAQ to new highs and lifted the Dow Jones industrial average back over 9000. But in Corporate America, Ebenezer Scrooge set the tone. Blue-chip giants from Coca-Cola to Caterpillar and Case somberly warned investors that fourth-quarter earnings would fall below expectations. By Dec. 28, some 400 such warnings had been issued. And by late January, "we will certainly surpass the previous record" of 526 warnings for a quarter, predicts Charles L. Hill, research director at First Call Corp.

These warnings set the stage for what is sure to be a dismal earnings season. Back on July 1, analysts tracked by First Call expected fourth-quarter operating earnings for the S&P 500 to soar 16%. But after the recent warnings, they now expect a rise of just 3%, and even that may prove overly optimistic, warns Hill. In any event, it will be the fourth straight quarter in which operating earnings have risen less than 4%. Given that trend, says Hill, operating earnings for 1998 will likely climb just "a little over 2%," down from 11% in 1997, and 18.5% as recently as 1995.

OVERSEAS PAIN. A flood of restructuring charges will make net earnings even bleaker. Through November, corporations had unveiled plans to cut 574,629 jobs, just 7% shy of the decade's record high, set in 1993, according to outplacement specialists Challenger, Gray & Christmas. With Citigroup, Case, and others wielding the axe in December, 1998 may be "the worst year for corporate layoffs in the '90s," predicts Rick Cobb of Challenger. With many companies figuring "they might as well get all the bad news out at once" with huge



write-offs, net earnings will fall 5.5% in the fourth quarter, figures David A. Wyss, chief economist at Standard & Poor's DRI.

So why is the market setting records? It may be in part because 1998 profits as a percentage of gross domestic product, while lower, will still be strong. At roughly 8.5% of GDP in 1998, they'll be below 1997's 9.1% but well above anything reached in the 1980s or early 1990s, says Wyss. Also, the market tends to look be-

yond current problems. Analysts tracked by First Call still expect earnings to surge after popping 18.7% in 1999. While

forecasts often prove optimistic, strategists do expect accelerating growth in the second half of 1999 (page 88).

Still, many companies will face sledding in the first half. Multinationals buffeted by the Asian crisis for months, will continue to feel the heat. Coca-Cola, which gets 80% of operating earnings overseas, recently warned

h-quarter net will come in some 25%
er the \$817 million earned a year
er. And weak markets from Asia to
ia will continue to hammer Coke,
1 analysts say may not hit its goal of
asing unit volume 7% to 8% in 1999.
ec. 17, Nike Inc. said second-quarter
ngs fell 51%, and warned that future
s are down 37% in Asia, versus just
1 the U.S.
ings won't get any easier for multi-
nals in 1999. Asia "is still showing no

where you can raise prices," says Jerry
Jasinowski, National Association of Man-
ufacturers' president. Makers of dynamic
random access memory (DRAM) chips
have seen prices plunge up to 97% over
the past two years. As a result, chip-
makers lost \$8 billion to \$9 billion in
1998, says Dataquest analyst Jim Handy.
"They need to make some money to rein-
vest for their future," worries Intel CEO
Craig R. Barrett.

For all sorts of commodities, prices

which they rose 25%. That could help
push down industry earnings 8% from
this year's record highs, says PaineWeb-
ber analyst Samuel Buttrick.

"CAUTIOUS." Aside from some hot high-
tech businesses, the prospects for big
revenue gains look dim. Peter J. Canelo,
U.S. investment strategist at Morgan
Stanley Dean Witter, predicts U.S. com-
panies will manage top-line growth of
just 1% to 2% in 1999.

At the same time, labor costs are ris-
ing. In 1999, compensation will
rise 3.8%, up from 3.6% this year,
predicts DRI's Wyss. For many
companies, "the only option is to
pursue a restructuring strategy,"
says Ned Riley, BankBoston
chief investment officer. And
many are doing so with a
vengeance. On Dec. 21, Case said
it would close two plants and lay
off 3,400 workers, or 19% of its
total workforce, by the end of
1999, to counter what CEO Jean-
Pierre Rosso calls a "precipitous
decline in the agricultural equip-
ment market worldwide." Nearly
a dozen big banks have an-
nounced they will take restruc-
turing charges in the fourth
quarter. Among them: Citigroup,
which plans to cut 10,400 jobs
and take a \$900 million charge.

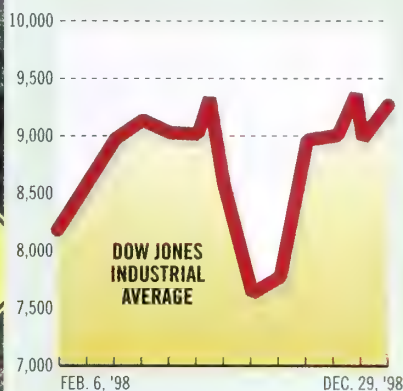
Many companies are also slash-
ing capital spending. DRI expects
overall capital spending to rise
just 3.2% in 1999, vs. an 8.8% in-
crease in 1998. That's hurting cap-
ital-goods suppliers such as Park-
er-Hannifin Corp., a
Cleveland-based maker of motion-
control products and aircraft
parts. In early December, Parker
said fourth-quarter results would
fall 10% to 15% below year-earlier
levels, "and we've been telling
everyone our outlook [for 1999]
is cautious," says Parker CEO
Duane E. Collins.

At the same time, some com-
panies are thriving. Analysts ex-
pect General Motors Corp. to earn a
record \$1.9 billion in the fourth quarter
as it builds 150,000 more vehicles than
usual to make up for last summer's
strike. On Dec. 17, General Electric Co.
hiked its dividend by 17%, after an-
nouncing it sees another record year in
1999. Wal-Mart Stores Inc.'s profits are
expected to jump 14% in the fourth quar-
ter, and same-store sales increases in the
mid-single digits are possible in 1999,
says CEO David D. Glass.

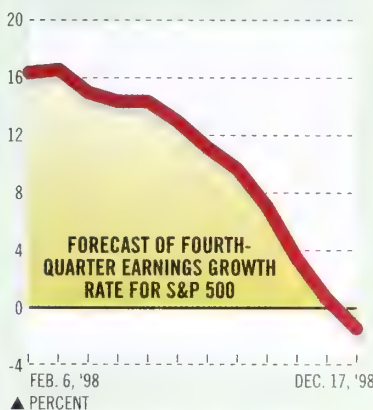
Tech companies, especially those riding
the Internet boom, are also bucking the



THE MARKET IS STRONG...



...BUT QUARTERLY EARNINGS LOOK WEAK



DATA: BLOOMBERG FINANCIAL MARKETS 1/8/E/S/INC

of recovery," says James E. Good-
resident of UAL Corp., which lost
million of business there in the 12
is ended Sept. 30. And with the
flu spreading to Brazil and
uela, "we think 25% of the world
e in recession in 1999," up from
n 1998, says Jeffrey M. Applegate,
investment strategist at Lehman
ers Inc.

in there's pricing pressure, which
s companies at home and abroad.
the world awash in capacity, "there
most no manufacturing industries

are plunging—and earnings, too. Texaco
Inc. has joined the ranks of those making
bigger cutbacks to cope with \$10 to \$12 a
barrel oil (page 44). Steelmakers are also
being clobbered by plummeting prices,
which they blame partly on dumping.

In Detroit, sales are strong, but pric-
ing power is weak. The average price of
a new car or truck will drop by 1%, to
\$22,750 in 1999, predicts Paul Ballew,
chief economist at J.D. Power & Associ-
ates Inc. Even airlines feel pricing pres-
sure: The average one-way business fare
has fallen slightly, after three years in

earnings trend. Cisco Systems Inc. is expected to boost profits 31% on a 36% revenue gain to \$2.7 billion in the quarter ending Jan. 31.

For all the bad news, Corporate America as a whole remains remarkably profitable. And earnings should begin to rise faster in the second half,

once restructurings take hold and the global economy recovers. Even so, the rate of growth may look poor compared with the double-digit gains investors have seen in the past few years. "We've been spoiled," says Kevin Parke, chief equity officer of MFS Investment Management. As long as inflation remains at

1% to 2% a year, Parke figures earnings growth of 6% to 8% a year will qualify as a "tremendous performance." Clear the market expects at least that much.

By William C. Symonds in Boston with De'Ann Weimer in Chicago, An Reinhardt in San Mateo, and bure reports

FOR TEXACO, 1999 COULD BE A BLACK HOLE

Many U.S. companies are hoping for a strong second half of 1999 to make up for what they fear will be a difficult first half. For oil companies, the whole year already looks gloomy. Take Texaco Inc. As recently as Dec. 2, Chairman and CEO Peter I. Bijur told securities analysts that Texaco was forecasting oil prices of \$15 a barrel in 1999 and, to preserve earnings, it planned modest cuts in overhead and capital spending. By late

timates of 25¢ to 28¢ a share—down roughly 70% from a year earlier's 87¢.

The new watchword at Texaco is "manage for cash." Lynch says the company will still spend to develop proven fields in such areas as the Gulf of Mexico that it regards as important long-term plays. But it's backing off new exploration. The projected cuts in capital spending have been tripled for 1999, which could take the budget down to \$3.7 billion, vs. the \$4.6 billion budgeted for 1998.

nounced massive cuts, and on Dec. 29, Conoco said it would slash its workforce by 6%. The day before, oil-services giant Halliburton said it would eliminate 2,750 jobs. As internal cuts become harder to find, oil companies are likely to look for savings through more joint ventures or outright mergers (page 118). By merging, Exxon Corp. and Mobil Corp. figure they can save \$2.8 billion a year. At the Dec. 2 Texaco analyst meeting, Bijur said he didn't



DIM AND DIMMER

How Texaco trimmed its predictions as oil prices fell

DEC. 2 FORECAST	DEC. 23 FORECAST
■ Oil at \$15 a barrel in 1999	■ Oil at \$10-\$12 a barrel in 1999
■ Cut 1999 capital spending \$300 million	■ Cut capital spending \$900 million
■ Cut \$650 million in other annual spending by 2000	■ Increase 1999 portion of cuts from original \$450 million

December, however, the hoped-for rebound in oil prices looked impossible. Chief Financial Officer Patrick J. Lynch told BUSINESS WEEK on Dec. 23 that Texaco now assumes prices of \$10 to \$12 a barrel in 1999 and is planning deeper cuts. Says Lynch: "It became evident to us that this low-oil-price scenario was going to be with us for a while." **"ANCIENT HISTORY."** Texaco has already felt the effects of cheap oil. Last January, analysts were predicting that the company would earn about 80¢ a share, fully diluted, from continuing operations in the fourth quarter of 1998. By Dec. 23, the mean estimate compiled by I/B/E/S Inc. was 36¢. But Lynch says even that number is "ancient history" and points instead toward some recent analyst es-

(As oil prices fell in 1998, Texaco's actual capital spending for the year came in at \$4 billion.)

In addition, Texaco is accelerating a plan to cut \$650 million from other expenses. The original intent was to achieve perhaps \$450 million of those cuts in 1999 and the rest in 2000. But now, Lynch says, Texaco is looking for ways to do even more of the cutting in 1999. The company has said it plans to eliminate about 2,000 of its 29,000 jobs worldwide by the end of 1999, mostly through layoffs. In addition, about 10,000 employees will officially be transferred to Texaco's U.S. refining, marketing, and pipeline joint ventures, which began operating in 1998.

Texaco is not alone in cutting. Royal Dutch/Shell Group has an-

have "the urge to merge." But Lynch says "there is considerable analysis and work going on" about merger and venture opportunities and that "every possibility of improving shareholder value is on the table."

A rebound in oil prices would be a godsend, of course. Lynch says Texaco is forecasting \$15 to \$17 a barrel in 2000, assuming a rebound in Asian demand and a slowing in new production. But skeptics figure that's an assumption that will have to be abandoned—like this year's \$15-a-barrel dream. That bodes ill for for profit. Says Fahnestock & Co. analyst Fadel Gheit: "Oil companies are not earning their cost of capital. It's an industry in liquidation, basically." Not pretty picture.

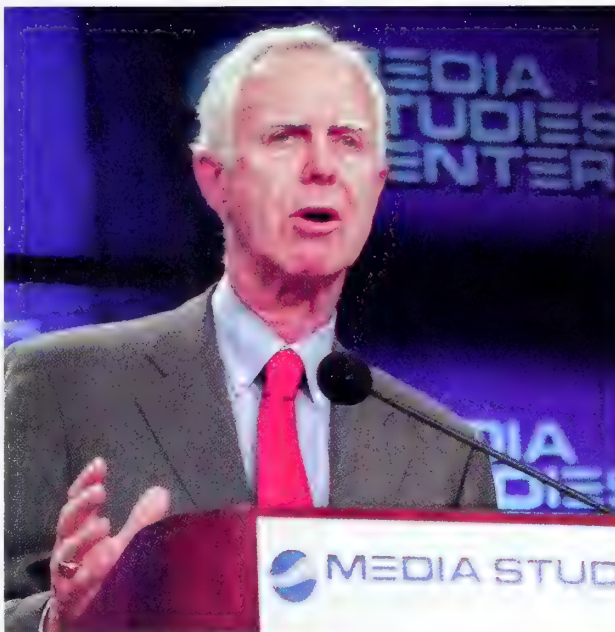
By Peter Coy in New York

By Nanette Byrnes & Amy Barrett

BUSTING UP A BALANCE SHEET GAME

For months now, Chairman Arthur Levitt Jr. and others at the Securities & Exchange Commission have been warning Corporate America in speeches and public appearances about the deteriorating quality of corporate earnings. The message: Too many companies are resorting to accounting tricks to deliver the results Wall Street demands. In particular, they say, reserves have been abused. Reserves are supposed to dedicate part of a company's income to some future cost. But the SEC says some companies use reserves unrelated to specific costs and end up misleading investors by skimming from good years to make bad ones look better. Now, Levitt is following his talk with the kind of action it could start to end such abuses. On Dec. 22, the SEC sued W.R. Grace Co. for fraud, alleging that the mineral company diverted up to \$20 million of 1991 and 1992 earnings into reserves. Then, the SEC says, Grace used the money back into income in later, weaker years. Grace plans to test the suit. But for other companies taking 1998 reserves, the action against Grace should be taken seriously. "This is the first," says SEC Chief Accountant Lynn Turner, "but certainly not the last we'll see." One accounting pro has already raised questions about reserves previously used by Micron Electronics Inc. and urged disclosure of treatment of reserves at H.J. Heinz Co.

AGGERING. The commission's timing is excellent. Its crusade is starting at the time of year when financial hijinks are most likely. According to First Call Corp., which tracks Wall Street earnings estimates, around 641 companies have announced new reserves this year. And Charles Hill, First Call's director of research, expects that number to grow in January and February. At the same time, the size of reserves became staggering. In December, Royal Dutch/Shell Group announced a \$5 billion restructuring charge.



SEC'S LEVITT: *Reserves can deceive investors*

The frequency and scale of the reserves are giving regulators lots to eyeball. Lawyers are paying attention, too. Harvey L. Pitt of Fried, Frank, Harris, Shriver & Jacobson is advising clients who are taking reserves to be careful: "Companies have to say to themselves, 'The minute we take a restructuring charge, we will be a target of SEC review. So we should make sure every T is crossed and every I dotted.'"

He's right. Turner says the commission will send letters to companies that take reserves for 1998. The letters, which will first go to companies taking the largest reserves, will urge them to make sure their accounting is correct and all appropriate disclosures have been made—and implicitly notify them that the SEC has its eye on them.

Micron Electronics, for one, has used some aggressive accounting when it comes to a certain reserve, says accounting watchdog Howard M. Schilit of the Center for Financial Research & Analysis. The Nampa (Idaho)-based PC maker had established a reserve

for the costs of cases on infringement of other companies' intellectual property rights. Schilit, who says such reserves should be taken only for known violations where the liability can be precisely estimated, figures the reserve was made prematurely. In August, management reversed \$11.8 million of the reserves, a boost to pretax income. "From the beginning to the end, it was strange," says Schilit. Micron says the reserve met generally accepted accounting principles.

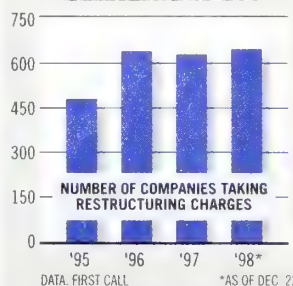
Reversing charges is far from unusual now. Schilit points out that Heinz reversed \$25.7 million of restructuring charges in the October quarter, boosting earnings and the Pittsburgh-based food company's gross margins. He says the company should have broken that reversal out in its income statement. Heinz says the charge and the reversal were clearly disclosed. And on Nov. 13, SunTrust Banks Inc. announced, after discussions with staff at the SEC, that they would reverse an excess \$100 million that the Georgia bank had set aside to cover bad loans from 1994 to 1996.

For executives at these companies and others, the Grace case is meant to send an unsettling message. In addition to suing the company, the SEC is bringing a personal administrative proceeding against seven Grace executives, from former CEO Jean-Paul Bolduc down to Robert W. Armstrong III, a division controller. The example is meant "to generate deterrence," says Columbia University law professor John C. Coffee. If

that convinces executives that they can't get away with manipulating earnings by abusing reserves, the SEC will have performed a great service to shareholders.

Byrnes covers corporate accounting. Barrett is the Philadelphia bureau chief.

CHARGING IT OFF



COMPUTERS

HOW DID SANTA CARRY ALL THOSE COMPUTERS?

They flew out of stores—and retailers made money

For many retailers, this Christmas didn't live up to expectations. Unseasonably high temperatures put the kibosh on holiday sales of coats, sweaters, and gloves. And without an unlimited stock of Furbies, toy stores saw below-average traffic, too.

But the folks selling personal computers had no such complaints. Business was good—and continues to be, as consumers seek out post-Christmas bargains. After all, with prices starting as low as \$399 and a blizzard of mail-in rebate coupons, who can resist?

LOTS OF TRAFFIC. As a result, market researchers such as PC Data Inc. are looking for a strong December to produce a record volume year for computer retailers. The Reston (Va.) firm says U.S. unit sales at yearend will be up more than 20%, to 7 million.

The question is: At these prices, did retailers make money? Analysts and dealers say yes. Look at Best Buy Co. and Circuit City Stores Inc. The two largest national electronics chains announced record sales and earnings for the quarter ended in November, and analysts are predicting that December revenues will be up 7% in both categories. In fact, overall, this year's retail PC sales are expected to match the \$8.2 billion set last year. "There's simply more traffic than last year," says Harold F. Compton, executive vice-president at CompUSA Inc., the Dallas-based superstore chain.

The traffic rose as the prices fell: In November, the average selling price of a



PC without monitor dropped below \$1,000 for the first time, driven by low-end computers priced at less than \$599. The volume is "awesome," says Stephen A. Dukker, CEO of emachines, a Fremont (Calif.) startup that makes computers selling for as little as \$399. Since the company started shipping in mid-November, it has sold 200,000 computers, Dukker says, could have sold twice that number more production.

In the past, falling prices had



Both of these men are traveling 2,000

Tired of scurrying through airports? Bleary-eyed meetings? Missing your family? On-net from MCI WorldCom has the answer. Global conferencing. We can provide everything you need for your meeting—audio, video, and NET conferencing or a combination of all three. We'll even provide the latest video equipment. No matter

ized retailers: They somehow had work off bloated inventories of r-cost machines. But this year, they d in stocks and say they got rea- ble terms from PC makers, which a big interest in keeping PC stores e. And then there are hose rebate ms, which al- stores to ad- se superlow s—but still sell tail. It's up to onsumer to col- the difference the manufactur- A system from urd Bell NEC Inc. a monitor and a printer, for exam- isted for \$1,399. t could be adver- as a sub-\$1,000 PC se of its five sepa- nail-in rebates: \$100 from Circuit City, and Internet service ler EarthLink Net- plus \$50 each on a r from Lexmark International and t-in disk drive from Imation. at's more, stores are willing to ac- elatively low margins on comput- in the 6%-to-8% range—because

they can make up profits from higher-margin software, monitor upgrades, and extended warranties.

The bargain-PC trend is great for ap- pliance merchants such as Circuit City

for the likes of CompUSA, which is al- ready struggling to make a comeback from the 65% drop in earnings it suf- fered in its quarter ended Sept. 26. That hit was caused by lower prices, a slump

Mail-in rebate coupons offered by PC makers let stores advertise big bargains—yet sell at full retail prices

INCLUDES MONITOR & PRINTER
\$1399⁹⁹
-\$100 CIRCUIT CITY MAIL-IN REBATE
-\$100 NEC MAIL-IN REBATE
-\$100 NEC INTERNET MAIL-IN REBATE**
-\$50 SUPERDISK MAIL-IN REBATE
-\$50 LEXMARK MAIL-IN REBATE
\$999⁹⁹ FINAL COST

and Best Buy. The cheapest PCs are often bought by first-timers, who are more likely to shop where they buy other appliances rather than at a specialized computer store. "They're making a family type of purchase rather than a home-office purchase, and Best Buy and Circuit

City are their kind of store," says Douglas A. Gordon, an analyst at NationsBanc Montgomery Securities Inc. in San Francisco. "At Circuit City, it's the strongest piece of the store."

The trend, however, is not good news

in sales to businesses, and the purchase of its biggest competitor, the Computer City chain, from Tandy Corp. In trying to consolidate and pare overhead, CompUSA shuttered 55 Computer City stores. All told, the deal slashed earnings by 5¢ a share, or \$4.5 million, and the company says that it expects profits to be off by 1¢ or 2¢ in each of the next three quarters as well.

Still, CompUSA volumes are up, Compton says. As for dollars, he is waiting for the end of the year. "Traditionally, Santa always comes, but sometimes I hold my breath right up to the end," he says. Then again, there's always January, which brings in the buyers holding out for even lower prices. And, once again, they are finding them.

By Larry Armstrong in Los Angeles

eting. Which one would you rather be?



MCI WORLD COM

ive your needs, we can handle it. And if there's ever a concern, we have people ready to assist you. 24/7. changing the way the world meets. So you can get where you have to go. Without ever really having to... go. oyage. Introducing MCI WorldCom On-Net. For details, visit mciworldcom.com or call 1-800-475-3555.

COMMENTARY

By Marcia Stepanek

A BETTER VACCINE AGAINST Y2K LAWSUIT FEVER

It's starting. As the Year 2000 looms, lawsuits over the bug are piling up. Already, some 38 suits over Y2K glitches have been filed in the U.S. And according to Gartner-Group Inc., a technology think tank, 711 more disputes are at the pre-filing stage. Says Jim Wooten, director of the U.S. Chamber of Commerce's Institute for Legal Reform: "Y2K litigation could virtually shut down companies and cost jobs."

That may be hyperbole. But as more companies report serious Y2K testing troubles, and as news of minor breakdowns surface, the dockets are likely to swell, and executives are pressuring Congress for relief.

SAME TUNE. Congress has heard the call. Unfortunately, it sounds like the same old tune—a replay of the holy war between trial lawyers and business over tort reform. The Chamber is floating draft legislation called the Year 2000 Readiness & Jobs Protection Act, which urges Congress to set up special tribunals modeled after bankruptcy courts. Y2K judges would be appointed by the U.S. Court of Appeals, and defendants would not be liable for punitive damages if they could prove they took reasonable

steps to fix the bug before problems surfaced. The measure would limit punitive damages and require Y2K suits to be filed within two years of bug-related harm or injury. Attorneys' fees would be capped at \$1,000 an hour. Says Richard Middleton Jr., president-elect of the American Trial Lawyers Assn. (ATLA): "This is simply tort reform in sheep's clothing."

Technology-company lobbyists want to keep the disputes out of court altogether. Harris Miller, president of the Information Technology Association of America, an industry trade group, says

Congress should create a forum for pre-trial discussions overseen by arbitrators, where most settlements would be only for actual damages. Jan Amundson, general counsel for the National Association of Manufacturers, says this route could be "less contentious and more realistic politically." Of course, it's also a good way to keep settlements private—and cheaper for defendants.

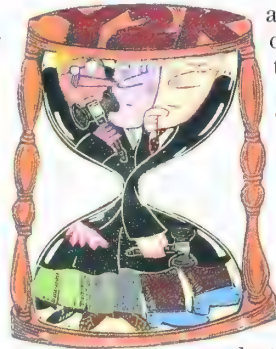
Trial lawyers vow to defeat either proposal. Middleton says mandatory arbitration and mediation "ends up favoring companies who supply bad products." And the proposed Y2K court? "We don't need a whole

new court structure," he says.

Even if there were general agreement on the need for a special court, there might not be enough time to create one. It takes months to appoint new federal judges, for example. And the whole matter could become hostage to President Clinton's looming impeachment hearings, since proposals for Y2K litigation relief would have to go through the Senate Judiciary Committee. "There's no question that the impeachment issue will slow the whole legislation trail," says David Karl, spokesman for Senator Patrick Leahy (D-Vt.), a Judiciary Committee member who is also an expert in technology law. "The fate of key issues, including Y2K, could be poisoned at the well."

Lawmakers should consider another approach. Why not adjudicate Y2K cases in the existing system but consolidate them in one court? That's what happens in Delaware's chancery court, which deals with corporate law. Business could get a central forum and judges with expertise on the issues. And trial lawyers could keep Y2K cases in the civil-justice system. The stakes are too high to leave this to chance. It's time for lawyers and tech companies to stop bickering and start dealing with the part of the Y2K threat.

Stepanek covers Y2K issues.



BUSINESS WEEK/HARRIS EXECUTIVE POLL

Slow but Steady Progress

SITTING PRETTY OR SITTING DUCK?

How prepared do you think your company's computer systems will be to accommodate the year 2000 when it arrives?

	1998	1997
Very prepared	89%	86%
Somewhat prepared	10%	12%
Somewhat unprepared	0%	1%
Very unprepared	0%	0%
Don't know	1%	1%

WEAK LINKS IN THE SUPPLY CHAIN

How prepared do you think the computer systems at your company's suppliers and customers will be to accommodate the year 2000 when it arrives?

Very prepared	31%
Somewhat prepared	61%
Somewhat unprepared	4%
Very unprepared	0%
Don't know	4%

TRUST, BUT VERIFY

Has your company developed requirements for suppliers and/or customers to demonstrate their computer systems' readiness for the year 2000?

Yes	84%	No	1%
Don't know	6%		

Survey of 303 senior executives at public corporations. Interviews were conducted Dec. 8-17, 1998 for BUSINESS WEEK by Louis Harris & Associates Inc.



Schwab's New Net Message: You've Got IPOs!

Online investors stand to get a bigger slice of the action

Charles Schwab & Co. has emerged as the giant of online trading, controlling some 30% of the market and the assets in online accounts. Now, moving into investment banking to give legions of investors a crack at initial public offerings. In a little-noticed move on Dec. 4, Schwab for the first time acted as a co-manager for the initial offering of Select Comfort Corp., a Minneapolis air-mattress maker that has sold 4 million shares at \$17 each. At first blush, the move hardly seems like good news. For a year, Schwab has been selling shares of IPOs to retail customers. It distributed chunks of offerings managed by Credit Suisse First Boston, Hambrecht & Quist, and J.P. Morgan. Rivals such as Fidelity, E*trade, and Start Wit Capital also use the Internet to sell new issues to mom-and-pop investors. What's more, powerhouse Morgan Lynch & Co. will offer online IPOs to some of its customers in 1999, and Morgan Stanley Dean

Witter is working on a similar plan.

So what's different now? For starters, as a co-manager, Schwab gets access to more shares of a given deal to sell to its IPO-hungry customers. "The interest in IPOs is overwhelming, and we've had a difficult time getting enough product to meet the demands," explains Schwab co-CEO David S. Pottruck.

Schwab has some novel ideas for the online IPO concept, too. One is to use database-marketing techniques to pitch issues to likely investors. Later in 1999, Schwab says, it will have the technology

As a co-manager of stock offerings, Schwab wins the right to more initial shares

to sift through its 2.1 million online customer profiles and use the Web to aim IPOs at investors with particular types of stocks in their portfolios and particular interests. For instance, a medical-device company IPO might be offered to Schwab clients working in health care. "The great opportunity is to use what we know about investors," says Pottruck.

"MORE PROCEEDS." In the Select Comfort deal, lead-managed by high-tech investment bank Hambrecht & Quist, Schwab mailed more than 250,000 postcards to Select Comfort customers who also had accounts with the brokerage, inviting them to buy shares. Daniel J. McAthie, Select Comfort's chief operating officer and financial officer, says dozens of customers contacted the company. McAthie also says his deal raised more money than it might have because Schwab could gauge investors' interest. Says McAthie, "We got more proceeds."

Hambrecht & Quist CEO Daniel H. Case III says the performance of future joint offerings could get even better as his bank and Schwab learn more about mining client profiles. Case says they will also track what investors do with new issues in the aftermarket to get a better feel for long-term demand. That, he says, could enable companies to sell fewer shares at higher prices. "We can give companies a better deal and make IPOs available to the guy on the street," says Case, adding that Schwab will soon appear on the prospectuses of several other Hambrecht & Quist deals.

Rivals say Schwab could run into problems. Tom O'Connell, executive vice-president of Morgan Stanley's Discover Brokerage Direct, says that as a neophyte in the world of underwriting, Schwab may not have much appeal to new issuers. "As a newcomer to the IPO business, it's not clear Schwab will be able to get larger chunks of the best IPOs for its customers," Robert H. Lessin, CEO of Wit Capital, an Internet investment bank, says his firm, through partnerships with the likes of Quick & Reilly and Waterhouse, has access to at least as many online trading accounts as Schwab—and has co-managed some 45 deals, compared with Schwab's one.

But unlike Wit, Schwab owns its accounts and can use them to mine customer data more effectively. And analysts say Schwab's mammoth reach and its swift move to embrace the Net will make it hard to beat. "Schwab is like the America Online of financial services," says Goldman Sachs brokerage analyst Richard K. Strauss. "It's in a world of its own." Schwab can only hope it stays there.

By Linda Himelstein in San Mateo, Calif., with Leah Nathans Spiro in New York

EDITED BY KELLEY HOLLAND

THE LATEST WORRY: DAREDEVIL CEOs

INVESTORS ADORE GUTSY CEOs who take big chances in business. But what about when they risk their necks on their own time? That's what Oracle's Larry Ellison did on Dec. 29 when he sailed during a storm that took the lives of at least four sailors. Days earlier, Virgin Group Chairman Richard Branson's attempt to circle the globe in a hot air balloon ended when his craft came down in the Pacific. Hewitt Associates consultant James Reda thinks boards should require CEOs to mellow out. "In the past, the concern has been over reckless behavior like alcoholism, but this is new," he says. "It seems to be out of control."

CLOSING BELL

AOL IN THE FAMILY

Out with the old and in with the new. On Christmas Eve, America Online replaced Venator Group, formerly Woolworth, in the venerable Standard & Poor's 500-stock index. And the world's leading online service has been soaring ever since, moving up 20% on Dec. 28 alone, to close at 157%. AOL prides itself on being the first blue-chip Net stock, fueled by a predictable earnings stream that includes booming E-commerce sales. AOL says it saw 1 million first-time shoppers online in December.



But Sarah Teslik, executive director of the Council of Institutional Investors, says the quest for challenge is the right attitude for CEOs. "If they'll risk their lives hopscotching, I'll bet on the stock."

A BRIGHT-EYED AND BUSHY-TAILED DRUG

THE NEWS HAS CEPHALON'S investors perking right up. On Dec. 28, the West Chester (Pa.) drugmaker announced that the FDA had approved Provigil, its drug for narcolepsy, a disease that causes a sudden, overwhelming desire for sleep. That sent Cephalon stock up 12%. Provigil helps narcoleptics stay awake and may have fewer side effects than amphetamines. But drug industry watchers say that like Viagra, Provigil may wind up being prescribed for people who just want to feel better—and such uses have not been studied or approved yet.

CALIFORNIA'S BEER BLAST

A BATTLE IS BREWING OVER sports promotion that has the liquor industry fearing a crackdown like the one on tobacco. California's Alcoholic Beverage Control Dept. had obtained a court order stopping a Miller Brewing Super Bowl sweepstakes offering tickets to the game and other prizes on the grounds that it unduly pushed drinking. An appellate judge on Dec. 16 ruled the order was improper on procedural grounds. Undaunted, California will push ahead with a rule to ban all such sweepstakes.

THE APPLE PIPELINE IS PRIMED

CAN APPLE COMPUTER KEEP up the momentum it has built

HEADLINER: JAMES TOBIN

AN ULTIMATUM BACKFIRES

It was a classic boardroom standoff. On Dec. 11, say sources close to Biogen, CEO James Tobin presented directors with an ultimatum: Let him run the company without interference from Chairman James Vincent or he'd walk. On Dec. 22, the board returned its verdict: *Au revoir*.

Tobin couldn't be reached for comment. Vincent, who stepped down as CEO last year, confirms the timing of the meetings but says he agreed with Tobin not to discuss the reasons for his departure beyond saying they are "personal." Vincent also says that as chairman, he was doing what Tobin

wanted. That's not how everyone sees it. Tobin, the former president of Baxter left because "he didn't



need the chairman looking over his shoulder," says Cowen analyst David Stone. The fracas is unlikely to disrupt operations. The Cambridge (Mass.) company sel

the top multiple sclerosis drug, Avonex, and its stock is up 120% this year. That makes Tobin a hot job prospect. Already, Boston Scientific—four times larger than Biogen—is sniffing around. "We're eager to talk to him," says CFO Larry Best.

By Geoffrey Sm

up with the hot iMac? Interim CEO Steve Jobs on Jan. 4 will take the wraps off new products—including an iMac with a faster processor—that the company hopes will do the trick. The star attraction at the annual Macworld convention, say sources close to the company, is an upgrade of the high-end G3. Code-named Yosemite, the new computer will boast processor speeds as high as 400 megahertz, vs. 333 MHz for current models, and a translucent design like that of the iMac. Still in the works: a mobile device weighing under four pounds code-named WebMate.

DAIMLER CHRYSLER IS A HAPPY COUPLE

COMPANIES ARE LAYING OFF workers at a rapid rate, but DaimlerChrysler, facing strong demand for its automobiles and trucks, is hiring.

It announced on Dec. 27 it had added 13,000 employees in 1998, bringing its global workforce to 434,000. Revenues for 1998 should be 13%, the company says, profits will be "significantly higher" than what the companies reported separately for 1997. Co-Chair Jürgen Schrempp and CEO Eaton say they expect even better year for once merger-related savings kick in—an eye-popping billion this year alone.

ET CETERA...

- AT&T will eliminate 18,000 jobs by the end of 1998, well ahead of schedule.
- U.S. home resales rose 2.7% in November, their second-strongest pace ever.
- CMS Energy led a group that won a bid to build a billion power plant in Illinois.
- Viacom agreed to reacquire its convertible preferred shares held by Bell Atlantic.



Naomi Campbell and Larry King,
at the National Italian American Foundation Gala,
in Washington & Towers.

**Double points. Double miles.
Double smiles.**



**Hilton HHonors® and your
American Express® Card
can earn you *double miles
and double points.***

Free trips twice as fast. Sound good? We thought so. As a member of Hilton HHonors, the hotel program business travelers prefer, charge your business-rate stays at Hilton with your American Express Card and earn both double points and double miles with your choice of eight participating airlines including United, Delta, Northwest and Continental. This offer is available between January 4 and March 31, 1999 so make your plans on the double. Because earning free trips twice as fast makes them twice as fun.

**For worldwide reservations, call
your professional travel agent. To
enroll in Hilton HHonors or make
reservations visit www.hilton.com
or call 1-800-HILTONS.**



Cards

To apply, call 1 800 THE CARD

**Earn double hotel points for free nights in
Hawaii or at more than 400 locations worldwide.**



**Earn double miles
towards free flights.**

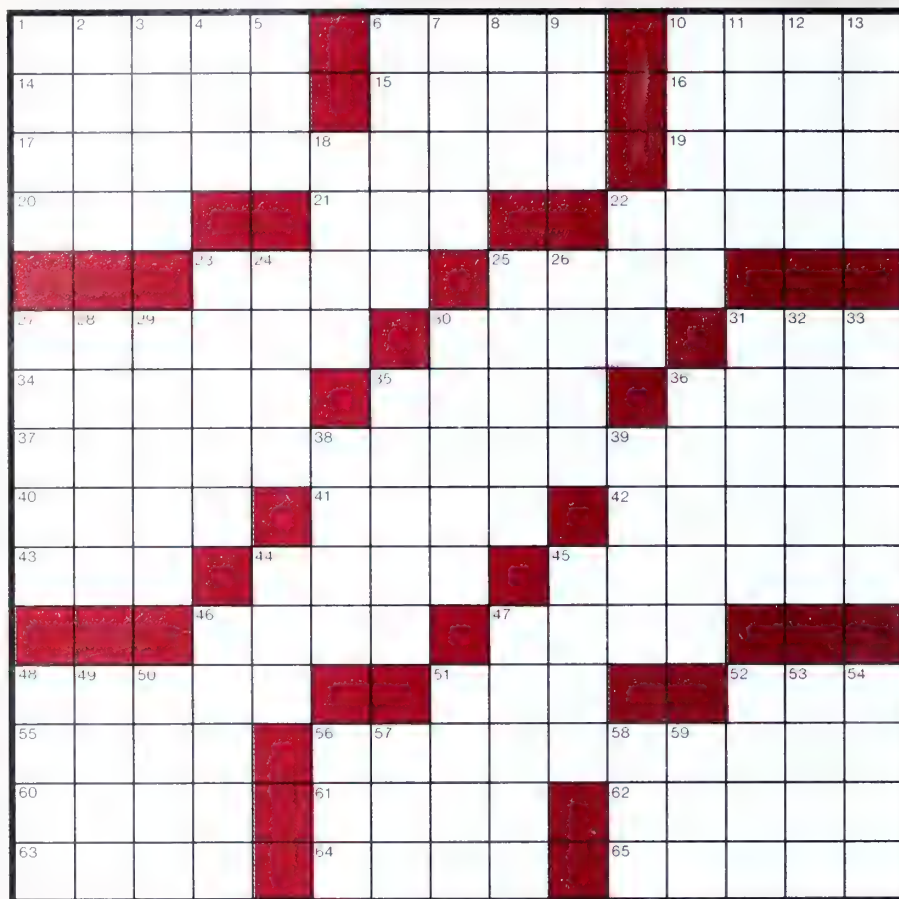


It happens at the Hilton.

Offerable for stays from January 4, 1999 through March 31, 1999. Hilton HHonors membership, earning and redemption of points are subject to HHonors terms and conditions. Normal rules for earning HHonors points and airline miles apply. Refer to your HHonors membership materials for rate and other restrictions. Participating airlines include Alaska Airlines, America West Airlines, Continental Airlines, Delta Air Lines, Hawaiian Airlines, Northwest Airlines, and United Airlines. At participating Hilton and Conrad International hotels outside the U.S., you can earn double points and double miles with any payment method. See www.hilton.com for details. The Hilton name and logo are trademarks owned by Hilton. ©1999 Hilton Hotels

Mixing Business with Pleasure by Lincoln

Puzzle #5



ACROSS

1. Former Goldman Sachs exec in the Cabinet
6. Golf-bag contents
10. Secretive sort
14. New York city
15. Hot-selling doll of a few years ago
16. Sharpen, as skills
17. Fidelity spokesperson
19. Beef-rating agency: Abbr.
20. Benevolent brother
21. DHL rival
22. Au Bon Pain product
23. Is forced to
25. Rarefied

27. Wholesale
30. Legal claim
31. Downsize
34. Rub the wrong way
35. First name in baked goods
36. Owner of "Jeopardy!"
37. Management perk
40. Does lunch
41. Portable beds
42. Cupertino company
43. Magazine execs.
44. Cast a ballot
45. Full-page book illustrations
46. A real money maker
47. Have a conference
48. Song-royalties distributor

51. Fair hirer: Abbr.
52. Compass reading
55. Security breach
56. Netscape product
60. Grease the wheels
61. Prefix for business
62. Enrico's favorite drink
63. Cincinnati's __ Bank
64. Composure under pressure
65. All wound up

DOWN

1. __ of thumb
2. DTE, e.g.
3. Swindle
4. Like winter roads

5. Part of NBC: Abbr.
6. Entice
7. Architectural additions
8. Music publishing giant
9. Si Newhouse, to Sam
10. Overtrade a customer account
11. Finish second
12. Time __ half
13. Former LEXIS/NEXIS owner
18. Depose
22. Coal container
23. Cadbury Schweppes brand
24. Software buyer
25. Product associated with Akron
26. Be the boss of
27. See eye to eye
28. "__ luxuriously" (see page at right)
29. Throws out a line
30. Coffeehouse order
31. Preempt
32. __ Ben's
33. Youngsters
35. Kimberly Clark purchase of '95
36. March honoree
38. Clickable illustration
39. Auction, for example
44. CEO, for one
45. Jury member
46. Check writer
47. Standard Oil of New York, familiarly
48. Watney products
49. Stock-exchange membership
50. Spaniard's home
51. River of Spain
52. Network owned by Disney
53. Capone adversary
54. Pennsylvania port
56. Woman in WWII
57. Teamwork inhibitor
58. Make a choice
59. Tiny

For answers to this puzzle:

Turn to page 14 in this week's issue of Business Week or visit Mixing Business with Pleasure by Lincoln on www.businessweek.com (URL: www.businessweek.com/adsection/puzzlesbylincoln/index.htm)

Puzzle created by: Stanley Newman.



www.lincolnvehicles.com

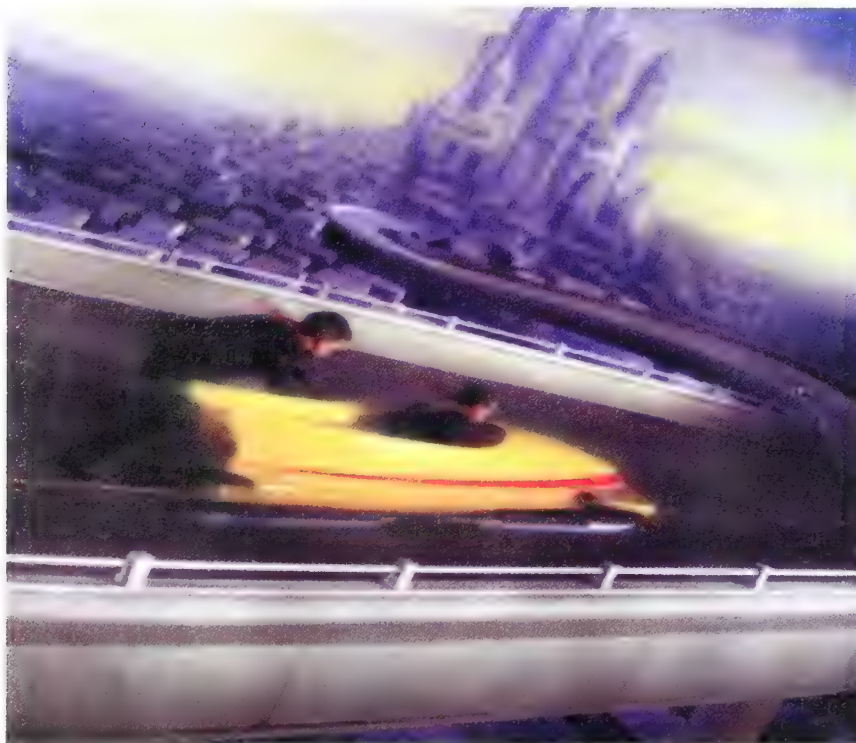
Tread luxuriously.



lightly *and* luxuriously in Lincoln Navigator, the most powerful luxury SUV on the continent. Tread spaciously, too. Navigator has room for in three rows of leather-trimmed seats. Call 1 800 446-8888, visit www.lincolncehicles.com or see an authorized Lincoln Navigator dealer.

Lincoln Navigator. What a luxury  **should be.**

"OUR INTERNET ACCESS SERVICE NEEDED MORE
CAPACITY. AND WE NEEDED IT FAST."



At GTE WHOLESALE MARKETS, our goal is to provide innovative communications solutions to businesses within the communications industry. Whether it involves network management, network capacity, or resale services, we have an intimate understanding of the problems these companies face. And the experience and expertise to solve them. We begin by establishing a relationship with customers based on open communication and an understanding of their business, which allows us to focus squarely on their needs. Then we look for creative ways to fill those needs – even if that means changing the way we do business.

 Some time ago, an ISP "backbone" provider faced a major dilemma: Customer demand for Internet capacity had outstripped their ability to provide it. They needed to build more and quickly. That's when they called in GTE Wholesale Markets. Partnering closely with the ISP, we introduced them to a new networking configuration called CyberPOP. Instead of the traditional method of routing ISDN lines through multiple points, this system employs a trunkside connection that permits the equipment to be located in existing GTE switching centers, which in turn allows capacity to be added much more rapidly. Over the next two years, in fact, the rate at which we installed circuitry for this provider went from 1,000 ports a month to more than twelve times that. This rate far exceeded their expectations, enabling them to increase their business and coverage opportunities very rapidly.

If you're having a problem getting one of your communications ideas to work, call GTE Wholesale Markets at 1-888-483-9594, or contact us on the Internet at www.gte.com/Wmkt. We're quick. We're cost competitive. And best of all, we're flexible. So you can count on us to deliver solutions that will ensure your success.

GTE

PEOPLE
MOVING
IDEAS

NETW
SERVI

ED BY PAULA DWYER

BATTLE STATIONS! THE COMING COMBAT OVER DEFENSE SPENDING

After years of dining on Hamburger Helper, the Pentagon is about to rediscover red meat. Concerns about the military are rising, spurred by reports of aging weapons underpaid, poorly trained troops. With U.S. forces set for a long and expensive mission in Iraq, Republican hawks and White House budgeteers agree that it's time to boost defense spending. The likely result: the first big Pentagon spending hike in a decade.

In Washington, the straightest distance between two points is often a circuitous squiggle. Before the brass gets its bearings, President Clinton and Republicans on the Hill must battle over how much money is provided, who gets the credit—or the blame—for seeking it. The White House is working over some extra dough. But it will depict the GOP as shilling arms merchants at the expense of social programs.

Commander-in-Chief Clinton wants to provide more money partly because it would be politically unwise to buck Joint Chiefs of Staff, who have taken an unusual step of publicly lobbying Congress for an increase. But Clinton's big bid will be on the low side. In the February budget, he expected to propose about a \$10 billion increase over the \$280 billion projected for fiscal 2000 military spending. If Clinton says that's stingy, he'll argue that lower inflation gives the Pentagon more purchasing power. Defense Secretary William S. Cohen previewed the preemptive strategy on Jan. 11 when he unveiled a plan to boost military pay and retirement benefits.

AND BUTTER. Although Cohen's move was well received on Capitol Hill, Republicans say the military needs a more firepower to cope with global threats. Senate Majority Leader Trent Lott, who steers hundreds of millions in defense contracts to his home state of Mississippi, wants to

see Clinton's defense bet—and double it to \$20 billion.

Why bicker over an arms gap during peacetime? GOP pols think Democrats are vulnerable to charges that they undermined America's security with post-cold-war defense cuts. So the White House isn't taking any chances. Clintonites also reckon that a pro-defense stance insulates Vice-President Al Gore against assertions in the 2000 Presidential race that he's a military softie. The goal, says an Administration aide, is "to prevent Republicans from getting a wedge issue."

But under budget rules, the \$20 billion boost that the GOP favors must come from domestic spending. That puts the

President in a good position to win the battle for public opinion in this guns-vs.-butter spat. Some Republicans already are flinching at the coming attack. "He'll say we're trying to take money out of the mouths of children and accuse us of busting the [spending] caps," frets a Senate GOP aide.

Exactly. Clinton also will use his bully pulpit to assert that his budget addresses the Pentagon's most immediate needs—military pay and readiness, not the costly hardware of which Lott & Co. are so fond. The White House blitz "is going to make it very painful for the Republicans," says one defense industry executive.

But after this PR offensive, will G. I. Bill stick to his guns? Don't bet on it. Lobbyists predict that the President will cut an 11th-hour deal for a \$15 billion defense boost. The price? The GOP gives him some of the extra money he wants for education and a handful of other domestic programs. Whatever the final figure, expect Clinton to claim he's taking care of both America's children and its defense needs—while hammering the GOP for budget profligacy. Still wonder why Republicans voted to impeach him?

By Stan Crock, with Howard Gleckman



A \$15 BILLION BOOST? *Gulf air power*

CAPITAL WRAPUP

MORE PAL ON THE GRIDDLE?

Attorney General Janet Reno may open a probe of Peter S. Knight, a close aide to Al Gore who is expected to play a key role in the Vice President's bid. Reno is conducting a 30-day review of Knight—managed the '96 Clinton-Gore campaign and thus falls under the independent counsel act—after receiving allegations from the House Commerce Committee that Knight had a real estate developer and a buddy Franklin L. Haney win

favorable terms on a government lease. In exchange, the panel says, Haney may have contributed \$280,000 to Democratic coffers. Justice indicted Haney in November for allegedly making contributions through straw donors.

Reno also is reviewing charges that Knight lied to the committee about a \$1 million fee Haney paid him. Federal law bars contingent fees on government contracts. Haney and Knight deny the charges. Reno has until Jan. 14 to decide whether to begin a preliminary 90-day probe.

BOWLES: BACK IN PINSTripES

► In what must rank as one of the briefest testing-of-the-waters in history, former White House Chief of Staff Erskine B. Bowles has opted not to run for governor in North Carolina. He has rejoined his old venture-capital firm, Charlotte-based Carousel Capital, as a partner. And he's working on his first deal: affiliating Carousel with a major New York investment firm. Bowles promises to remain active on the policy front, especially Social Security reform.

In a new Era of Power, we have the energy.

One company has emerged as a powerful leader in the unregulated energy marketplace. It's DTE Energy – a leader that offers today's business world an extraordinary level of energy management.

At DTE Energy, we have all the resources in place to help business and industry achieve fully customized energy solutions. Working together with all of our affiliates, we can relieve you of capital risks, financing costs, development costs, technical headaches and maintenance worries. We can even provide on-site, capital-intensive energy management and on-going energy risk management.

And with the strength and experience of Detroit Edison at our core, we can do even more to help you realize true turnkey energy management solutions.

In the era of non-regulated energy, the formula for single-source energy solutions is simply e=DTE. DTE Energy. 1-800-294-8293

DTE Energy



www.dteenergy.com

GENE G. MARCIAL

DATA BROADCASTING IS SPINNING A WEB

Something is brewing at Data Broadcasting (DBCC), whose stock soared 5% on Nov. 11 to 15 on Dec. 29. Is Internet-related? Bet on it.

This stock, which had been lumbering along between 3 and 6 before heat-up, is headed even higher, insist the pros who have made a bundle of Net issues. The reason, they say, is prospect of a red-hot initial public offering—expected in late January—MarketWatch.Com, a joint venture

LOOKING TOWARD A HOT IPO



BLOOMBERG FINANCIAL MARKETS

between Data Broadcasting and the broadcast arm of CBS. Data Broadcasting and CBS will each own 38% of MarketWatch.Com after the IPO. The joint venture's Web site, called CBS MarketWatch.com, is designed to be a one-stop shop for all sorts of financial information. It currently provides breaking news, expert analyses, market data. CBS will contribute million worth of advertising time to television and radio stations to promote the Web site. Data Broadcasting is a leading provider of real-time market data, financial and sports news, and gambling information to more than 2 million users—over PCs, radio, cable and satellite transmitters, and the Internet.

Although the IPO is expected to be at \$10 to \$12 a share, some pros believe the stock will blast off after opening—just like other recent IPOs of Internet outfits that serve robust e markets.

They expect MarketWatch.Com will be another uBid, the Internet auction—whose stock soared some 700% after it went public on Dec. 4 at 15 a share,” says one fund manager who loaded up on Data Broadcasting. uBid was trading at about 140, uBid was a spin-off that was later taken public by its parent, Creative Comput. Since uBid went public, the par-

ent's stock has also rocketed—from 6 to 60. “Data Broadcasting shares are the way to play MarketWatch.Com before it goes public,” says one New York investment banker.

SPACEHAB'S FRESH LAUNCHING PAD

Is there a way for investors to take part in the new interest in space—in the wake of John Glenn's second orbiting and the start of building the International Space Station? Well, some pros have bought shares in Spacehab (SPAB), which operates the pressurized modules used for laboratory research aboard the U.S. Space Shuttle.

Spacehab, trading at 7 in mid-October, has climbed to 10, buoyed in part by a \$62 million NASA contract to use Spacehab's modules on upcoming shuttle missions. “Spacehab's growth will accelerate with the start of missions to the International Space Station,” says Julianne Pierce of *The Red Chip Re-*

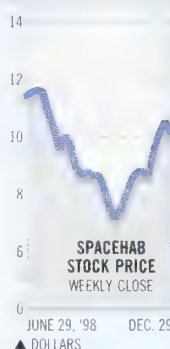
view in Portland, Ore. She also anticipates Spacehab to benefit from an increase in space research by non-governmental bodies. Spacehab has further contracts with the European Space Agency and the German aerospace center. Pierce's 12-month target for the stock is 18.

One of Spacehab's partners is Boeing, which recently signed a pact with Spacehab to cooperate in providing services for the International Space Station, as well as for commercial operations. In the past, Spacehab has hired Boeing to be the overall contract manager in building its modules.

With the construction of the International Space Station, says Spacehab CEO Shelley Harrison, both companies see new opportunities for working together. Boeing has overall management responsibility for the engineering and maintenance of the space station, while Spacehab has contracts to supply modules and other services for the station.

Analyst Peter Aseritis of Credit Suisse First Boston figures Spacehab will earn 84¢ a share in the year ending

A BOOST FROM GLENN'S TRIP



DATA BLOOMBERG FINANCIAL MARKETS

June 30, 1999, 90¢ in 2000, and \$1.20 in 2001. He has a buy rating on the stock.

FORE SYSTEMS RUSHES THE NET

In late September, when Fore Systems (FORE) tumbled from 20 to 9, money manager Steve Dalton was quick to act: He scooped up Fore shares, feeling certain that despite disappointing second-quarter earnings, the company would make a strong snapback. True enough, the stock has rebounded to 16. Dalton believes it is headed higher—to the upper 20s in 6 to 12 months. Fore, among other things, “is an indirect way to play the strong Internet tide,” says Dalton.

Fore, which makes networking products based on asynchronous transfer mode (ATM) technology, “has the best technology in such equipment,” says Dalton, who heads First Capital Group, a division of First Union National Bank in Philadelphia. So far this year, First Capital's portfolio is up 38.5%, compared with a 26.4% gain for the Standard & Poor's 500-stock index.

“Demand for faster Internet access is prompting upgrades of switches and equipment among telecom companies,” says Dalton. “That bodes well for Fore, which makes some of the fastest ATM switches around.”

Megan Graham-Hackett at S&P also thinks Fore is “well positioned for the Internet.” It provides telecom companies with gear that will enhance the combination of voice and data communications on their networks. She says Fore's recent purchase of Berkeley Networks, which makes gigabit Ethernet switches, gives Fore a new entry in the small-to-midsize networking market. She figures Fore will earn 48¢ a share in the year ending Mar. 31, 1999, and 72¢ in fiscal 2000.

ROBUST SNAPBACK?



DATA BLOOMBERG FINANCIAL MARKETS

BusinessWeek **ONLINE**

For more coverage of the markets, visit our Web site at businessweek.com

THE **25** TO EXECUTIVES OF THE

This was not a year for the faint of heart. Nor was it a year for the tinkerer or the tortoise. No, 1998 was a year of dramatic change in which executives were forced to surf swelling waves of volatility—many didn't make it back to shore. Unlike the mid-1990s, when a steadily growing economy helped even average executives boast stellar gains, everyone was able to stay on their feet. Among those who did, however, were BUSINESS WEEK's 25 Top Executives of 1998. These savvy leaders did a mighty job of keeping their companies stable amid the turmoil.

Start with a stock market that soared, then plummeted, then soared again, forcing managers to tear up and reconstruct financing plans. Add an international economic crisis that spread like a contagion through much of the world. For companies in Asia and much of the developing world, the mix of plummeting currencies and depressed economies has proven to be a toxic one. Back in the U.S., the crisis has put pressure on earnings and cast doubt on the notion of overseas markets as a safe

THE EXECUTIVES TO WATCH BEGINS ON PAGE 8

THE TOP ENTREPRENEURS BEGINS ON PAGE 8

with panacea. Throw in rising wages, the biggest merger boom ever, and upheaval in the White House, and it was a chaotic picture for most. Not so for BUSINESS WEEK's Top Executives. Despite radically different management styles, ages, and backgrounds, all were able to find a way through the uncertain times. Often, it took the form of bold action. The stunning decision by America Online CEO Steve Case and President Bob Pittman to buy Internet pioneer Netscape Communications. The \$1 billion deal makes AOL the first Internet company with the clout and cash to stand up to Microsoft. Equally audacious was Daimler Benz's Jürgen Schrempp's merger with American auto maker Chrysler. The \$94 billion deal set the car world on its head. While Schrempp still has to merge the two cultures and keep Mercedes' elite brands apart from Chrysler's mainstream ones, he has quieted the naysayers for now.

Executives didn't have to buy to be bold. Karen Katen, president of Pfizer's U.S. Pharmaceuticals Group, rode wonder drug Viagra to roughly \$850 million in 1998 sales. Steve Jobs jumped back in at Apple Computer

YES YEAR

ably, 1997, after a host of CEOs failed to end its slide. Now, he seems to be pulling off—could it be?—a turnaround, even as his digital animation studio, Pixar, is taking off. And who would have thought that long-suffering US Airways Group would prosper under Chairman Steve Wolf and Rakesh Gangwal?

In some industries, no one had a great year, but smart managers minimized the damage. Chase Manhattan's Walter Shipley has managed operations better than many, and he played it safer on emerging markets than his rivals. As a result, Chase may post its best quarter ever in one of the worst years in memory for financial services. Craig Barrett, CEO of Intel, maneuvered through a terrible slump in the chip business by expanding the product line at both the top and bottom ends. Investors are happy: The stock is near an all-time high.

To select our 25 Top Executives, BUSINESS WEEK first surveyed our staff of 145 writers and editors in 25 worldwide bureaus. We narrowed the list by examining each candidate's financial and stock performance. For the most part, the results were superb. Others stood out simply for keeping their companies afloat while their rivals sank. Either way, 1998's gutsy overachievers passed the field.

Craig Barrett

INTEL

Steve Case &

Bob Pittman

AMERICA ONLINE

John Chambers

CISCO SYSTEMS

Michael Dell

DELL COMPUTER

Mickey Drexler

GAP

David Glass

WAL-MART STORES

Leo Hindery

TELE-COMMUNICATIONS

K.Y. Ho

ATI TECHNOLOGIES

Nobuyuki Idei

SONY

Steve Jobs

APPLE COMPUTER, PIXAR

ANIMATION STUDIOS

Karen Katen

PFIZER U.S.

PHARMACEUTICALS

T.K. Koogler

YAHOO!

Dennis Kozlowski

TYCO INTERNATIONAL

Richard McGinn

LUCENT TECHNOLOGIES

Scott McNealy

SUN MICROSYSTEMS

Marilyn Carlson Nelson

CARLSON

Jorma Ollila

NOKIA

Ferdinand Piëch

VOLKSWAGEN

Jürgen Schrempp

DAIMLERCHRYSLER

Charles Schwab &

David Pottruck

CHARLES SCHWAB & CO

Walter Shipley

CHASE MANHATTAN

Lloyd Ward

MAYTAG

Ed Whitacre

SBC COMMUNICATIONS

Steve Wolf &

Rakesh Gangwal

U.S. AIRWAYS

Adrian Wong

VT HOLDINGS

SHOUTING YAHOO!

► Yahoo! Inc. could have easily been Boohoo! Inc.—if it weren't for near-flawless execution by CEO **TIMOTHY A. KOOGLE** and his Internet team. While other Web wannabes were still fiddling with basic strategies, Koogle was already transforming Yahoo! from just another search engine into a megaportal loaded with consumer-friendly information and services.

What sets Koogle apart from other Internet execs? Thinking big. From the start, Koogle saw Yahoo! as a consumer-driven media company, not a one-trick technology startup. So in 1996, a year after joining Yahoo!, Koogle unleashed a bevy of clever brand-building TV and radio commercials aimed at mainstream America. Thanks to that marketing emphasis, Yahoo! is now one of the best-known Net brands around.

But Koogle has ensured that Yahoo! is more than a brand built out of Net

air. A lanky guy with a passion for vintage guitars and cars, he has managed to turn a profit for five quarters running—a rare feat in Net Land. Yahoo! is expected to earn \$48 million in 1998 on sales of \$190 million, nearly triple 1997 revenues. Investors are doing even better. Yahoo's soaring stock price gives the four-year-old company a market valuation of almost \$25 billion.

The 47-year-old Koogle's stake so far is worth a tidy \$625 million.

Now, Koogle wants to make Yahoo! into a global multimedia and E-commerce leader. The company has already set up localized versions of its site in 14 international markets. With Web traffic expected to triple in the next few years to more than 320 million users worldwide, Koogle will have his hands full keeping Yahoo! out front.

KEY ACCOMPLISHMENTS

- Built one of the best-known brand names on the Internet
- Consumer-friendly services draw more than 40 million visitors a month, making it the leading Web portal
- Shares rose a sizzling 700%, to around 280



DEAL OF THE DECADE

► **JURGEN E. SCHREMP** thrives on risk, whether it's trekking alone through his South African game reserve, tackling a sheer rock face in the Italian Alps, or facing off with chess champion Gary Kasparov (who dispatched him in 2½ minutes). So when the CEO of Daimler Benz decided he needed a high-volume car business to stay ahead, he visited Chrysler CEO Robert J. Eaton and proposed a breathtaking merger.

The result is DaimlerChrysler, the \$94 billion deal of the decade. In one bold move, Schrempp has redefined competition in the global auto industry and kicked off a wave of consolidation. DaimlerChrysler, which is expected to have operating earnings of \$7.1 billion on revenues of \$155.3 billion in 1999, is already the model for pulling off a megamerger: Move swiftly and silently, settling the touchiest questions before going public. And Schrempp and Eaton are already well on the way to finding \$1.4 billion in savings. The whole thing could

sputter if the Mercedes name gets tarnished or if Chrysler's daring vehicle designs and speedy development cycles are hampered by methodical Germans.

Fluent in English and experienced abroad, Schrempp, 54, is one of a new breed of CEOs who will manage truly global enterprises in the next century. He made his name as an aggressive cost-cutter who orchestrated a dramatic turnaround at Daimler. Other top German executives are now following his example in offering greater value for the shareholder. For now,

Schrempp is co-chairman of DaimlerChrysler with Eaton. He will take over in 2001 at the latest. But as in the chess game he learned from his grandfather, Schrempp is surely planning a few moves ahead.

KEY ACCOMPLISHMENTS

- In engineering the merger of Daimler Benz with Chrysler, he has rewritten the rules of the road for the global auto industry
- Pulled a U-turn at Daimler: From net losses of \$3.5 billion in 1995, estimated net profits should hit \$2.6 billion for 1998

SCHWAB'S E-GAMBIT

► **CHARLES R. SCHWAB** (right), the founder of brokerage Charles Schwab & Co., and his co-CEO, **DAVID S. POTTRUCK**, showed some big-time mettle in 1998. With an eye toward lower-priced online brokers, they cut commissions last January by more than half, to \$29.95 per trade. Initially, the move slammed Schwab's stock and cost it an estimated \$125 million.

But the gutsy gambit quickly catapulted Schwab's online-trading business into the stratosphere. All told, Schwab's 30%-plus share of the Internet-trading market is now as large as those of its next three rivals combined. Its total assets are up 32% from 1997, to \$461 billion. And with earnings also growing at a fast clip, even Wall Street has finally come around: The company's shares have nearly tripled since September, pushing its market capitalization to \$27 billion, higher than even brokerage giant Merrill Lynch.



KEY ACCOMPLISHMENTS

- 54% of its trades are now online, up from 40% a year ago
- Gained one million new customers in 1998, a 20% boost
- With pre-tax earnings expected to rise 25% to \$559 million, shares have jumped 130%, to about 65

How do the pair split the load? Pottruck, 50, heir apparent at the firm he joined in 1984, handles the company's day-to-day operations. He has led Schwab's move to incorporate the Internet into everything the firm does, such as delivering financial data to customers. That leaves the 61-year-old founder freer to focus on overall strategy and serve as the advertising pitchman.

To keep growth up, the twosome are now moving overseas and transforming the discount into a new kind of full-service firm. In hopes of capturing many of the inexperienced investors who have flooded into the market of late, they're offering everything from advice and research to an array of mutual-fund choices. It's another bold gambit—though this time around the doubters are few.

SONY'S VISIONARY

► NOBUYUKI IDEI turned Sony around just in time to see the Japanese economy clobbered by a deepening recession in 1998. But while other Japanese companies are struggling to stay afloat, Idei stands out for taking bold steps to prepare for a future in which electronic toys and tools converge.

KEY ACCOMPLISHMENTS

- Signed deals with Microsoft and General Instrument to co-develop interactive technology
- Gave greater autonomy to U.S. operations
- Stepped up initiative to distribute entertainment over the Web

Foreseeing dwindling profits in gadgets like the Walkman and portable CD players, Idei introduced a series of innovative networked products in 1998. The most distinctive was the sleek VAIO C-1 subcompact computer, which sports a built-in digital camera. He also inked an agreement with Microsoft Corp. last June to develop its Windows CE operating system for cable-TV set-top boxes that will hook up to the Net. And he is leading Sony's charge into the software business, with plans to distribute movies, music, and other content via the Web.

At the same time, Idei, 61, moved to shore up Sony's soft spots. With music sales slumping and movies like *Godzilla* falling short of expectations, Idei wasted little time before acting: He quickly promoted industry veteran Howard Stringer to the post of chairman of U.S. operations. Yet there's little he can do about the yen's 20% surge in value against the dollar. Though Sony chalked up a record \$4.3 billion operating profit on \$56.3 billion in sales in the fiscal year ended March, 1998, this year is tougher. But while Sony's income is expected to fall 30%, to \$3 billion, on sales of \$56 billion, that's still much

better than other Japanese consumer-electronics giants.

Like his flamboyant mentor, Sony Co. founder Akio Morita, Idei has no shortage of panache and thrives on risk. He dresses in fashionable Italian suits and speeds around in a Porsche 911. Back in the office, some Sony executives worry that, with all his drive, Idei is speeding too fast around his own curves. But as he watches many of Japan's former powerhouse companies struggle to survive, Sony's boss feels he has no choice but to put the pedal to the metal.



A BOSS'S LIFE

► For **STEVEN P. JOBS**, CEO of Pixar Animation Studios Inc. and interim CEO of Apple Computer Corp., things couldn't look more different than they did a year ago. With its market share plummeting, Apple was then showing only faint signs of life. And Pixar, maker of the 1995 computer-animated blockbuster *Toy Story*, was just another one-hit wonder.

Now both are drawing raves. In the 17 months since Jobs took over Apple, he has simplified its confusing product line to just four basic models and has introduced the slick-looking iMac. The image-conscious Jobs also launched a series of inspired "Think Different" ads starring personal heroes such as John Lennon. The result: Earnings are back and Apple is winning a few new customers for the first time in years.

As for Pixar, it's expected to earn as much as \$200 million or more from its long-awaited *A Bug's Life*. The computer-animated feature

broke the all-time box-office record for the crucial Thanksgiving vacation and is at the center of a huge marketing push by partner Disney.

KEY ACCOMPLISHMENTS

- After two years of losses, Apple earned \$309 million in fiscal year ended Sept. '98
- Success of *A Bug's Life* raises Pixar's Hollywood profile
- Combined value of Apple and Pixar leapt from \$3.2 billion to \$6.3 billion

growing up as well. "It's like we're in our 30s. We got through our 20s after a million all-nighters—and now we know what we're doing," says Jobs, now 43. "We're in a wonderful phase." Juggling two companies may not be easy, but Jobs is bridging the computer and entertainment worlds to beautiful effect.



DADDY GAP

► By the way he talks, you'd think **MILLARD S. DREXLER** was the chief of some fragile startup instead of the CEO at powerhouse apparel retailer Gap Inc. Virtually no detail—from window displays to fabric blends—is too minute to escape the 54-year-old's attention. Every week, Drexler strolls anonymously into Gap stores from coast to coast to schmooze with consumers and clerks alike in a constant drive to improve the company's products and services.

This hands-on style has been Drexler's trademark since he took helm at Gap in 1995. Never that he runs a company 000 workers in one of the mature industries around. Drexler, Gap is still a fledgling. "We are limited only by our nation," he says. "Imagination is something that

Drexler, known for his marketing and merchandising savvy, has plenty of. In a cluttered marketplace, he has managed to create distinct identities for

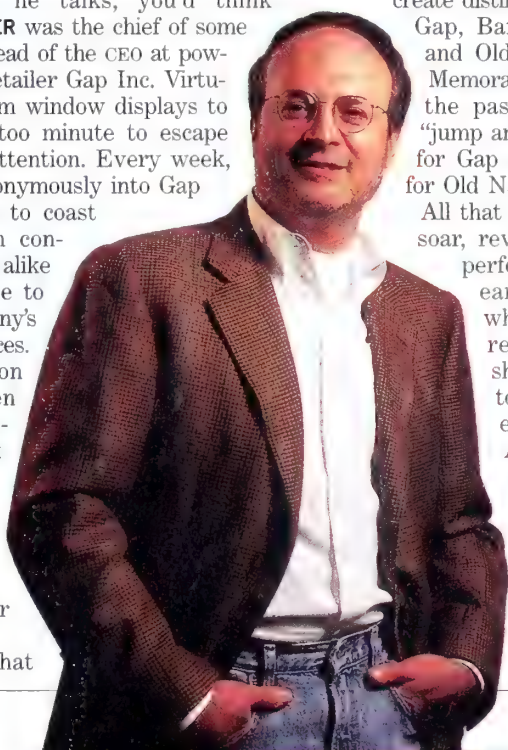
Gap, Banana Republic, and Old Navy brands. Memorable TV ads over the past year include "jump and jive" dancers for Gap and zany spots for Old Navy.

All that has helped Gap soar, reversing the flat performance of the early '90s even when many other retailers have struggled. Thanks to strong showings at all of its divisions, Gap is expected to earn \$775 million, up 45% from last year, on estimated revenues of \$8.8 billion in 1998. And then there's Gap's success on the Internet. Experts say Gap has one of the most popular shopping sites around.

For 1999, Drexler says he has spiffier products and store expansion plans up his sleeve. But then, what else would you expect from a guy who believes his multibillion-dollar outfit is as perishable as some kinky-dink startup?

KEY ACCOMPLISHMENTS

- Shares up about 135%, to roughly 56
- Developed unique, successful chains for different market segments—Gap, Banana Republic, Old Navy, and babyGap
- 1998 sales should rise some 30%, far above the 5% retail average





TRAVEL TITAN

► When **MARILYN CARLSON NELSON**, CEO of Carlson Cos., took over the family business last March, she inherited an empire that had been ruled by her demanding and domineering father for six decades. Curtis Carlson, who still has 100% voting control of the company, hasn't always agreed with her point of view, but this year Nelson has used a mixture of brains and charm to keep dad satisfied and make the corner office her own.

Under Nelson, 58, Minneapolis-based Carlson has launched

KEY ACCOMPLISHMENTS

- Made Carlson one of the largest leisure travel agencies in the world
- Developed employee loyalty with generous benefits
- Expanded cruise ships, hotels

a series of acquisitions and joint ventures, increasing the company's worldwide travel agency business by 200%. And Nelson, who has overseen corporate expansion since 1996, has built a remarkably loyal employee base at the privately owned \$7 billion company. A dynamic and inspirational speaker, she has liberalized benefits, instituted day-care

and profit-sharing plans, sometimes over her father's objections, and brought in important managers from outside the company.

Nelson's biggest coup this year was merging with British Thomas Cook Group, and combining with its 450 travel offices in the United Kingdom and its small British airline. A French speaker who studied at the Sorbonne, in Paris, Nelson has easily expanded operations in Europe. But her empire-building hasn't stopped there. She's commissioning luxury cruise ships and expanding the company's hotel franchises, including its Radisson Hotels. She's also trying to prepare son Curtis Nelson to take over the company someday.

In spite of her worries about a recession, Nelson has slowed down her expansion. Besides travel, Carlson has a billion business that advises companies such as General Electric on employee incentives. Nelson's message: Don't be small. Taking her own advice, she has vowed to double Carlson's revenues in the next five years.

INTEL'S IRONMAN

► **CRAIG R. BARRETT** stepped into the chief executive's job at Intel Corp. last May—at exactly the wrong time. With sales soft and rival chipmakers gaining market share, Intel was heading for its first annual profit decline in a decade. By June, when the Federal Trade Commission sued Intel, alleging monopolistic behavior, investors had lopped 32% off the stock's February peak. But Barrett, 59, kept his head, and in the past six months he has spurred Intel to a strong yearend surge. The stock rebounded to an all-time high in December. And analysts predict record results in 1999.

How did Barrett pull it off? Endurance plays a part: Barrett is known for his brutal travel schedule, packed with dawn-to-midnight meetings. His maniacal attention to operations helped, as well. Barrett's manufacturing background has made him a stickler for efficiency—he insists that every Intel factory be virtually identical. His rise to CEO, after 25 years with Intel, was partly due to that flair for operations. But the biggest boost this year

KEY ACCOMPLISHMENTS

- Wrang more profit out of high-end chips
- Well-timed segmentation strategy helped avoid worst of industry slump
- Intel stock hit all-time high of 126 a share

came from Barrett's strategy—hatched with Chairman Andrew S. Grove—to bolster profits by expanding Intel's product line at both the top end and bottom. Selling very high-end chips at record prices, and introducing successful low-end chips, carried Intel through a tough year.

The combination of Grove, who spins Intel's vision,



Barrett, who executes with cool precision, seems unbeatable. Although 1998 sales were only expected to have grown 4%, the new CEO executive is looking for future growth outside Intel's core chip business. He has expanded Intel's networking enterprise, launched consumer-PC support operation, and bought rights to a hot processor for digital handheld devices. The chip industry sagged 11% in 1998. But thanks to Barrett, Intel rode out the slump, and the chipmaker is poised to roar ahead.



MAKING AOL A-O.K.

For **ROBERT W. PITTMAN**, president (left), and **STEPHEN CASE**, CEO, of America Online Inc., 1998 was a year of revenge. As recently as two years ago, AOL was dismissed by Internet cognoscenti as an idea whose time had—and gone. All the real action was on the World Wide Web, not proprietary content services like AOL. But faster than a speeding cursor, this pair of cybermanagers has turned AOL from a has-been to the undisputed champ of the online world.

Anyone who doubted AOL's staying power is skeptical no more: In November, Case, 40, harnessed the technological power of Silicon Valley with his \$4.2 billion purchase of Netscape Communications Corp. and a marketing agreement with Sun Microsystems Inc. In a single stroke, AOL became a credible rival to Microsoft Corp. in the war for Internet supremacy.

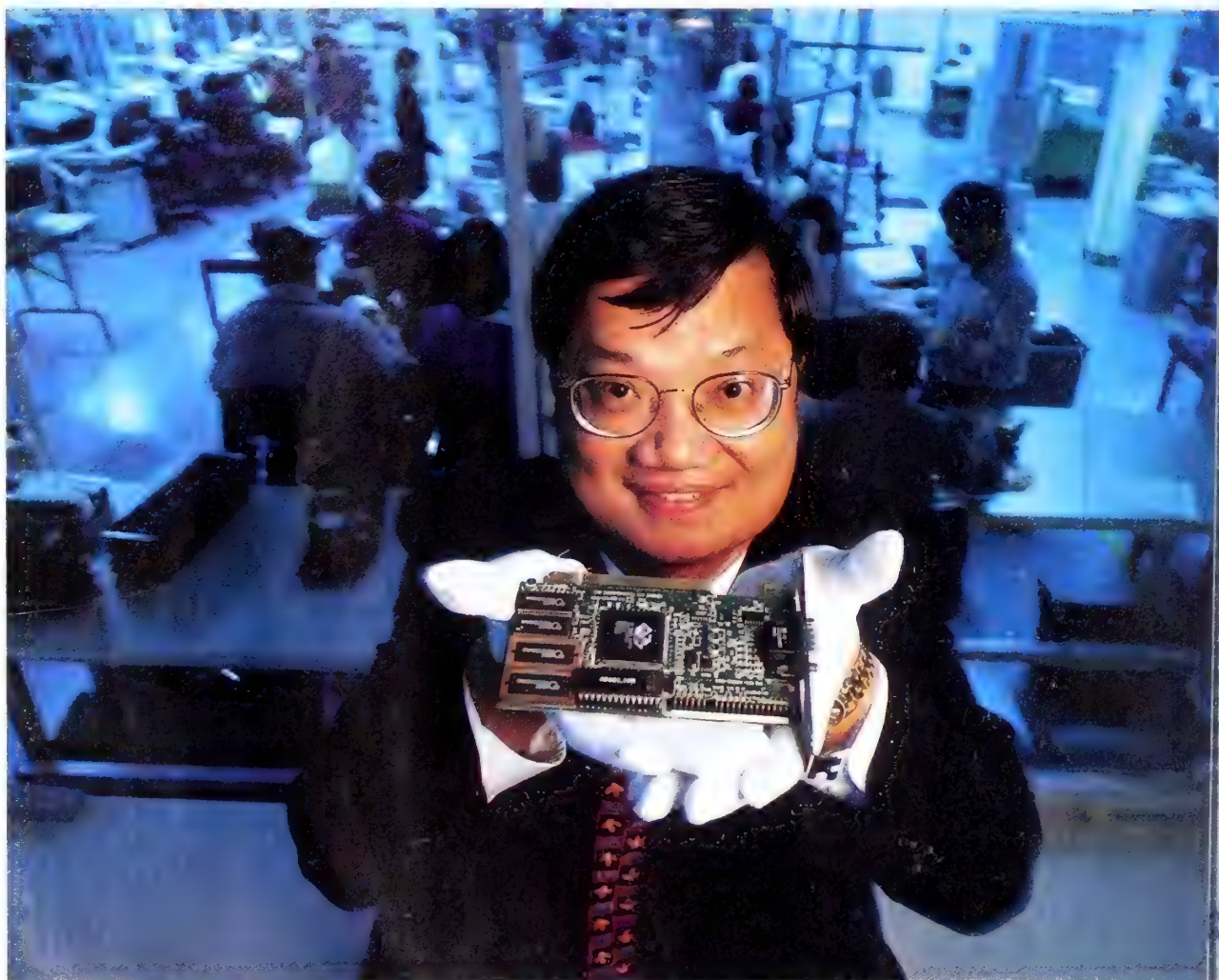
Even before that deal, Pittman, 45, was building AOL into a widely recognized consumer brand, positioning it to be the Coca-Cola or McDonald's of the online world. He lured online

merchants to advertise and sell their wares to AOL's 14 million subscribers. And with the promise of a more predictable earnings stream based not just on subscription fees but also on potentially more lucrative E-commerce revenues, Case and Pittman have been able to sell AOL as the first "blue chip" Internet stock. That's helped AOL's shares to jump nearly 600% this year.

That's an incredible reversal from a few years ago, when AOL looked to be fading fast under a barrage of busy signals. In 1997, AOL suffered a \$499 million loss. A year later, AOL hauled in \$91.8 million in net income on revenues of \$2.6 billion. Moreover, Case and Pittman turned things around with unusually effective teamwork, despite sharply different styles. Case, an intense introvert, is the big-picture strategizer. Pittman, a talkative extrovert, is the savvy dealmaker and marketing guru. Together, they proved AOL can be cool—as well as profitable.

KEY ACCOMPLISHMENTS

- \$4.2 billion deal to buy Netscape as well as a marketing deal with Sun Microsystems
- America Online stock climbed roughly 600% in 1998, from 22 to around 160



WIZARD OF 3-D

► When kids around the world opened up their Christmas packages, many were thrilled to find eye-popping 3-D computer games. In addition to their parents, they should also thank **KWOK YUEN HO** and his little known but rapidly growing company, ATI Technologies Inc. Ho, a 48-year-old Chinese emigré, has built suburban-Toronto ATI into the hottest 3-D chipmaker in the computer industry. With Dell, Compaq, and IBM among his biggest customers, sales and earnings are soaring. Even better, Ho enjoys a 33% share of that supercharged market—more than four times rival Intel's share.

ATI's recipe for success has been to move ever more swiftly in an industry where product-cycle turnaround counts for everything. By double-teaming engineers to keep a steady stream of innovations moving through the pipeline, Ho has been able to cut his turnaround time in half, to under nine months. His latest chip, Rage 128, which gives dizzying reality to such hot new games as *Quake II* and *Half-Life*, is less than a month old. But Ho is already push-

ing to release a next generation version, just as 3-D imagery begins to surge on the Net. If it catches on with E-commerce suppliers, that market too should be lucrative.

Masterminding the growth has been a heady leap for the soft-spoken, youngish-looking Ho, who grew up nearly destitute in mainland China. After working for nine years in Hong Kong for such outfits as Control Data and Philips, he moved to Canada to help ATI in a Toronto garage in 1985. The company went public in 1993.

Now, with 1,600 employees reporting to him, Ho has determined to keep creativity flowing up the command chain. He makes a point of regularly talking with as many staffers as he can and he even eschews reserved parking spaces for senior staffers. Just as he hustles to find a parking space every morning, Ho has grabbed his own special place in the booming graphics chip market.

KEY ACCOMPLISHMENTS

- Share price soared over 100%, to 17
- Sales should jump 38%, to \$1 billion, fiscal year ending in August
- Profits expected to rise 15%, to \$125 million

SECOND WIND FOR WAL-MART

Just three years ago, it looked as though Wal-Mart Stores Inc. had finally hit the wall. Profit growth was slowing, investors were fleeing. But **DAVID GLASS**, Wal-Mart's CEO since 1988, has managed to infuse the retailing giant with much-needed new energy and direction. His biggest success: a foray into the grocery business, with giant "supercenters" that sell general merchandise, food. And now Glass, 63, is experimenting with smaller food markets, too. He's helped revive Wal-Mart on both Wall Street and Wall Street.

Glass's secret has been his knack for maintaining the personal touch that Wal-Mart's legendary founder, Sam Walton, valued. To build his discount stores into the largest retail chain on the globe.

Walton before him, Glass often shows up in Wal-Mart stores, mixing with staffers. Earlier this year, he even worked the door as a greeter in stores in Texas and Pennsylvania, to make good on a bet with employees after they reached their earnings goal.

But there's more than fun and games at work here. Using Wal-Mart's vaunted distribution and information systems, the



KEY ACCOMPLISHMENTS

- Shares up more than 100%, to 80
- New moves into groceries and foreign markets have fired up growth, calming worries about saturation
- Earnings should soar 22%, to \$4.3 billion, on an expected sales rise of 16%, to \$137 billion

low-key Glass has an ambitious strategy to build the chain into a truly global brand. It's already the dominant chain in Mexico and Canada. Glass says more acquisitions abroad are likely this year, particularly in Europe.

Glass is already getting results. Wal-Mart's earnings—and stock—are soaring. And after years of costly investment, even international is now adding to the bottom line. One increasingly pressing question, however, is who will

succeed Glass. Some top contenders have left in recent years to lead other companies. Glass promises he's luring talented outsiders to the Wal-Mart ranks and preparing the next generation to lead the giant discounter. But don't expect a transition anytime soon. "I don't want to go anywhere because I'm having a lot of fun," he says.

IMPULSIVE SHOPPER

For most CEOs, one or two big acquisitions would be a stretch per year. For Tyco International Ltd. CEO **L. DENNIS KOZLOWSKI**, it's not unusual to do a dozen. But even dealmaker Dennis outdid himself at yearend, riding in as a white knight to snatch electronic components maker AMP from the clutches of AlliedSignal's Lawrence A. Bossidy in November for \$1 billion.

The AMP purchase capped the best year yet for Kozlowski, 52, who in 1998 managed to buy 13 companies for \$18 billion. All this dealmaking has transformed the sleepy Tyco into one of America's premier industrial growth companies.

Better, in a year when many mergers floundered over executive control and Kozlowski has made all the parts come together smoothly. When the all-deal closes in February, Tyco will be generating some \$23 billion in annual sales, up from just \$3 billion in 1992. Kozlowski took the reins. Net income is expected to hit \$2.3 billion in 1999, up from \$95 million in 1992.



The hyperacquisitive Kozlowski is always on the prowl, scouting 30 to 40 opportunities at a time. He focuses on the four segments where Tyco already has a major presence: disposable medical supplies, valves, fire protection and electronic security, and electrical and electronic components. Hardly glamorous stuff, but that's fine by Kozlowski. He squeezes the most out of these operations with ultra-lean and decentralized management. His headquarters staff numbers only about 70, centered around four worldwide managers. Kozlowski hates meetings with a passion, preferring to keep in touch by PC and phone.

Once Kozlowski has swallowed AMP, he figures Tyco should generate profit growth of 25%. But don't think that will satisfy Kozlowski. Indeed, the dealmaking may have only begun.

KEY ACCOMPLISHMENTS

- Turned Tyco, a mundane industrial parts supplier, into a hot-growth company
- Completed 109 acquisitions since 1992
- Since January, Tyco's stock rose more than 65%, to 75

JAVA'S PERCOLATOR

► Even before he emerged as the linchpin of America Online Inc.'s blockbuster deal in November to buy Netscape Communications Corp., Sun Microsystems Inc. CEO **SCOTT G. McNEALY** had already led the maker of big commercial computers to a boffo 1998. Shrugging off the Asian crisis, he outpaced much larger rivals such as Hewlett-Packard and IBM, and established Sun as a key player in the emerging Internet economy.

McNealy, once dismissed as a brash, trash-talking kid who got lucky, now has some big new friends on his side. The AOL-Netscape deal commits AOL to buying huge amounts of Sun computers—worth a whopping \$500 million—and allows

KEY ACCOMPLISHMENTS

- Boosted sales 14% to \$9.8 billion in fiscal year ended June. Profits soared 23%, to \$906 million
- Stock price up roughly 115%, to around 85, in 1998
- Expanded Sun's business reach by joining America Online-Netscape deal

Sun to resell Netscape's electronic-commerce software. If McNealy, 44, can capitalize on Netscape's blue-chip customer list, Sun may well become the primary hardware and software provider for Internet commerce.

A charismatic speaker, McNealy has always been superb at firing up the troops. And that's just what the outspoken executive spent 1998 doing. He rallied the entire company toward pushing Sun's Java software as an alternative to Microsoft Corp.'s Windows. More than that, he aims to make Java the *lingua franca* of the entire Internet age—the chief way to write and run a new and simpler generation of programs.

He is getting big results: Use of Java is surging. But that's just the beginning. McNealy is offering Java for a myriad of consumer devices—from cellular phones to smart cards. These days, no one's dismissing McNealy anymore.





KEY ACCOMPLISHMENTS

- Launched breakout hits including Viagra and Trovan
- Oversaw lucrative partnerships marketing other companies' drugs, including Lipitor, Warner-Lambert's big success
- Beefing up Pfizer's U.S. sales force by adding 750 more reps

blockbusters. Think Viagra.

That talent has helped her make an already strong U.S. drug operation even stronger. During her tenure, Pfizer has had one knockout product launch after another, including the allergy medicine Zyrtec, the antibiotic Trovan, and,

of course, the anti-impotence pill Viagra.

Katen has fostered lucrative alliances outside the company, too. A co-marketing deal with Warner-Lambert in 1997 launched the cholesterol-lowering drug Lipitor in the U.S. Thanks in no small measure to aggressive and savvy promotion by Pfizer, Lipitor is now the leader in its \$4.6 billion market. Revenue from two such partnerships will add an estimated \$800 million to Pfizer's sales in 1998.

Known for her ability to build cohesive teams within the highly competitive company, as well as a knack for spotting talented executives, Katen is in the running to succeed Pfizer Chairman William C. Steere Jr. when he retires in 2001. Meanwhile, don't expect her to let up in her current assignment. Katen says the reason for her loyalty is simple: "I've never been bored." With Pfizer's pipeline healthy, that won't be changing anytime soon.

Pfizer's PEP PILL

When it comes to moving new products out of the lab and into the marketplace, Pfizer, with an estimated \$13.4 billion in sales in 1998, is the pharmaceutical industry's heavyweight champion. Credit **KAREN L. KATEN**, a 25-year Pfizer veteran and president of Pfizer U.S. Pharmaceuticals, for much of the company's muscle. Katen, 50, who climbed the ranks through her marketing operations before taking over as head of the drug arm in 1995, seems to have a formula for launching

HIGH FLIERS

Most airline folk had written off US Airways long before **STEPHEN M. WOLF** and **RAKESH GANGWAL** took a gamble on the troubled carrier in 1996. But captain Wolf and co-pilot Gangwal worked hard to pull the airline out of its nosedive—revamping routes, cutting staff, and forging a smart, forward-looking strategy. Result: Wolf, 57, and Gangwal, 45, have got themselves a contender.

Today, US Airways is sparring with the big boys. It has transatlantic reach and fills up some of the most modern craft in the skies. And after years of hefty losses, earnings have once again taken

off. Even better, US Airways shares have gone from 20 to around 50 since the pair took the helm, while airline stocks as a whole have gone up just 48%. And though US Airways shares, like those of all other airlines, have been hammered recently by

fears of recession, they have held up better than those of rivals.



KEY ACCOMPLISHMENTS

- Since Wolf and Gangwal's arrival in 1996, pretax profits are up more than sevenfold, to an expected \$927 million in 1998
- Shares are up roughly 200% since 1996

How did these guys do it? In the same way they pulled off a similar turnaround when they were at United Airlines. Gangwal, named US Airways CEO in

November, sweats the details. He's obsessed with load factors and other efficiency measures. Wolf, who remains chairman, charts broad strategy, flying around the globe to hammer out deals. Their partnership goes back to '92, when Wolf put Gangwal, a Calcutta native, in charge of planning for United. When Wolf was forced out, Gangwal followed.

Now, the duo are betting on a new venture, a no-frills regional carrier, MetroJet, launched in June. Just a couple of years ago, few would have bet a nearly bankrupt US Airways would still be alive—never mind thriving. But that was before these two came along.

EXECUTIVES TO WATCH IN 1999

Alan R. Mulally

BOEING



There's turbulence ahead for Mulally. The 53-year-old Boeing veteran must turn

around the profitless commercial airplane group. Tough job. Mulally has to build a record number of planes in '99 while making progress cutting up to 48,000 jobs. If it works, he could someday be rewarded with the CEO job.

Jeffrey P. Bezos

AMAZON.COM

This former hedge-fund manager, 34, has made Amazon the Web's biggest retailer. But formidable rival Barnes & Noble is moving aggressively online. Bezos' answer: expand into electronics and toys. No one expects profits in 1999, but this year may show whether Amazon is a keeper.



Andrea Jung

AVON PRODUCTS



Since becoming president a year ago, the 40-year-old marketing whiz, who

helped modernize the Avon image, is continuing her push overseas. Considered a shoo-in to become the next CEO, Jung's goal is to make the cosmetics company a household name around the globe.



BARON VON BUG

► **FERDINAND PIËCH** should be breaking out the champagne about now. Since taking the wheel at Volkswagen in 1993, when the German carmaker was hemorrhaging \$1.1 billion a year, he has been obsessed with fixing the company his father once ran and turning it into a global powerhouse. This year, Volkswagen is expected to post a 60% gain in profits to \$1.3 billion, on sales of \$75 billion. Even more exciting for a man as competitive as Piëch, Volkswagen is neck-and-neck with Toyota Motor Corp. and may very well replace it as the No. 3 auto maker in cars sold worldwide.

A passionate car guy who loves to tinker with engines, Piëch, 61, has injected some pizzazz into the mass-market carmaker even as he has pursued a ruthless cost-cutting program. He slashed the number of basic

platforms from 16 to 4, for example, turned around his Seat and Skoda brands. Now he can concentrate on new products such as the surprise hit family sedan of the Passat, and the Lupo minicar launched in Europe in 1998. But nothing beats the glory of his introduction of the new Beetle.

KEY ACCOMPLISHMENTS

- Hugely successful Beetle launch helped boost U.S. VW sales 63%
- Chopped costs to turn billion-dollar losses into billion-dollar profits
- Moved VW into the ultra-luxury market

project he personally championed in the face of in-house skeptics. The \$16,425 high-end version of the lovable bug led a revival of Volkswagen U.S. sales.

Piëch's bold move into the ultra-luxury market—he bought Italian sports-car makers Lamborghini and Bugatti in 1998—spiced up VW, but it didn't lead to one high-profile blunder: the race to buy Rolls-Royce Motor Cars for a pricey \$600 million. Piëch didn't do

homework and ended up losing the right to the Rolls-Royce name to rival BMW. VW is up with only the lesser-known Bentley brand after 2002. But don't expect that to stop the fiery engineer from striving to make VW a class act.

Panel of Experts



is who we listen to. Whether it's in a college, a hospital,
hool system or a corporation, providing the best service requires
understanding what customers want. What's made us the leading
l and facilities management services provider in North America
r ability to turn this understanding into innovative approaches
for serving our customers. That's the art of service.
Judged daily by experts like these.


Sodexho Marriott
SERVICES

00-763-3946 x44431
www.sodexhomarriott.com

"Marriott" is a registered trademark of Marriott International, Inc.,
used pursuant to license. ©1999, Sodexho Marriott Services, Inc.

EXECUTIVES TO WATCH IN 1999

Sanford I. Weill

CITIGROUP



1998 was a roller coaster ride for Weill. Problems combining Travelers with Citicorp last fall, led Weill, 65, to dump his president and long-time protégé, James Dimon, leaving the company in disarray. Now, Weill has to build a new team—and prove he can share the top job with John S. Reed.

Marjorie Scardino

PEARSON



The irreverent, Texas-born Scardino, 51, has lived in British media giant Pearson and shed noncore assets. Now the hard part: digesting the recent \$4.6 billion purchase of two Simon & Schuster units. The deal leaves Pearson's CEO facing hefty debt as Britain enters a downturn.

William H. Gates III

MICROSOFT



So what if he's the richest man in the world? Gates, 43, faces a perilous future.

Microsoft is battling to build its Microsoft Network as it endures an antitrust trial. Last August, Gates stepped back from day-to-day operations to guide product development. He better not stray too far from the tiller.

LIGHT SPEED

► When **RICHARD A. MCGINN** took over the CEO post at telecommunications-equipment maker Lucent Technologies Inc. in October of 1997, he faced an unenviable task—following in the footsteps of Henry B. Schacht, one of Corporate America's most respected elder statesmen. Schacht, the former Cummins Engine Co. CEO, brought in to head Lucent when the company was spun off from AT&T in 1996, had just guided Lucent to a spectacular first year.

But McGinn, 52, didn't miss a beat after his predecessor stepped down at age 63. A sports nut with a particular fondness for golf and deep-sea fishing, McGinn has instilled a take-no-prisoners competitiveness in Lucent's once-sleepy culture. His favorite sport of all, in fact, is "taking share" from competitors like Motorola Inc. and Northern Telecom Ltd. In 1998, Lucent won a host of marquee deals, including contracts from wireless-service provider PrimeCo Personal Communications and Baby Bell SBC Communications Inc.

Despite a sunny disposition and an easy laugh, McGinn is not one to take lightly. He starts his days at 5 a.m. by running on his treadmill and catching up on news from Asia, then hits the office at 7:00. In between, Lucent executives know to expect calls from McGinn during his 30-minute commute in his red Range Rover.

Always a man in a hurry, McGinn spent 1998 pushing Lucent into a host of new markets, including acquisitions in the fast-growing market for data gear. He's also swiftly expanding overseas. Last year, Lucent won contracts in China, the Philippines, Brazil, and elsewhere.

It has all fueled Lucent's sizzling hot streak. Sales, profits, and its share price are soaring. And McGinn himself has been richly rewarded by the Lucent board with a hefty \$12 million cash bonus. McGinn will always say he's deeply grateful for Henry Schacht's guidance. But others in the industry may already be saying: "Henry who?"

KEY ACCOMPLISHMENTS

- Shares up 180%, to 112
- Earnings in fiscal '98 rose 79%, to \$970 million, on sales up 14%, to \$30.1 billion
- Made 11 critical acquisitions in 1998, including seven in data networking





Yes.

Simplify
the
complexity
of
integrating
your
partners
suppliers
customers
suppliers
partners
customers
partners
suppliers

But do it right.

Increase profitability, gain a competitive edge and create new business models with Extricity Software.

Managing a growing number of partners across a global supply chain can be an overwhelming task. Extricity™ business-to-business integration software helps you simplify that task, and do it right. Doing it right means taking advantage of the Internet to integrate and automate shared interactions across your extended enterprise. Quickly and easily.

All while each business leverages its own existing enterprise applications, whether they be Baan®, Oracle®, PeopleSoft®, SAP®, legacy or in-house systems. Get ready to realize dramatic, immediate savings as you decrease inventories, reduce cycle times and bring new products to market faster. Do it right. Call us today at 1.800.497.6883, or visit www.extricity.com



EXTRICITY™
SOFTWARE

Extricity is a trademark of Extricity Software, Inc. All other names are trademarks of their respective companies. ©2004 Extricity Software, Inc. All rights reserved.

EXECUTIVES TO WATCH IN 1999

Eckhard Pfeiffer
COMPAQ COMPUTER



After snapping up Digital Equipment early last year, Pfeiffer, 57, spent much of

1998 digesting the troubled computer maker. But with strong holiday sales, Compaq looks to be back on track. Now, Pfeiffer is offering PCs over the Internet. The question is, can he sell direct and keep his resellers happy?

Mel Karmazin
CBS

1999 may show whether CBS's new CEO is a manager or a salesman. Karmazin, 55, who made his name selling radio ads, engineered the public offering of CBS's outdoor advertising and radio business. He vows he's in TV for the long haul. But the buzz persists that he'll sell the network.



Hugh L. McColl Jr.
BANKAMERICA



McColl's NationsBank just completed its merger with BankAmerica, creating a

banking leviathan. But there are already signs of strain: BofA CEO David Coulter was forced out after a \$372 million hedge-fund loss surfaced. McColl, 63, agreed to extend his tenure as he tries to make this merger work.



BANK ROLL

► Bankers had a bad year in 1998: Russia defaulted, Long-Term Capital Management imploded, and lenders lost billions. But if you graded on a curve, Chase Manhattan Corp.'s chairman and CEO, 63-year-old **WALTER V. SHIPLEY**, ended up a leader in his class.

Just before Christmas, Chase said it would beat analysts' expectations for fourth-quarter earnings. In fact, Chase said it might have its best quarter ever. And its share price, after tanking with the rest of the industry last

KEY ACCOMPLISHMENTS

- Share price has leapt 100% since October
- Despite industry turmoil, expects record fourth-quarter profits
- Oversaw two huge mergers successfully

summer, come charge back.

Consider its latest example: slow-and-steady wins the race. And steady just the word. Shipley, joined a predecessor of the

Chemical Bank in 1956. In the 1990s, Shipley has presided over two megamergers—Manufacturers Hanover and the old Chase Manhattan—without suffering many of the problems that have plagued some rivals. Even his shortcomings haven't hurt much. Unable to buy an equity business, Shipley avoided the pain suffered by competitors who did.

With more tough times on the horizon for the banking industry, Shipley seems better prepared than most. Perseverance is his trademark. Back in his college days, he was a basketball star at Williams College with a reputation as a standout rebounder. Shipley, though, flunked out of school and had to finish his degree at night at New York University. Now he has presided over the banking industry's biggest comeback in '98, proving once again that Shipley knows how to bounce back.

NERDY LIKE A FOX

► **MICHAEL S. DELL**'s performance is so awesome that a new word may be needed to explain how the 33-year-old CEO continues to astound competitors, analysts, and shareholders: Dellocity.

It's not yet part of the jargon-heavy computer-industry lexicon, but it should be. Dellocity is the art of operating in permanent fast-forward mode. The company squeezes maximum efficiency out of everything it does—from manufacturing personal computers to shipping orders within two weeks to delivering instantaneous customer service via the World Wide Web.

Dell's financial performance shows the same acceleration as its operations. Sales in 1997 jumped from \$7.7 billion to \$12.3 billion and are expected to approach \$18.5 billion for the fiscal year ending Jan. 31.

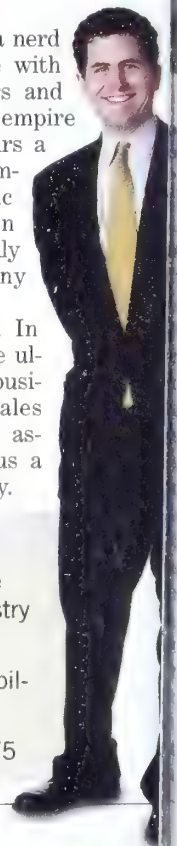
Those results are a lot jazzier than the man himself, whom business magazine profiles have described as

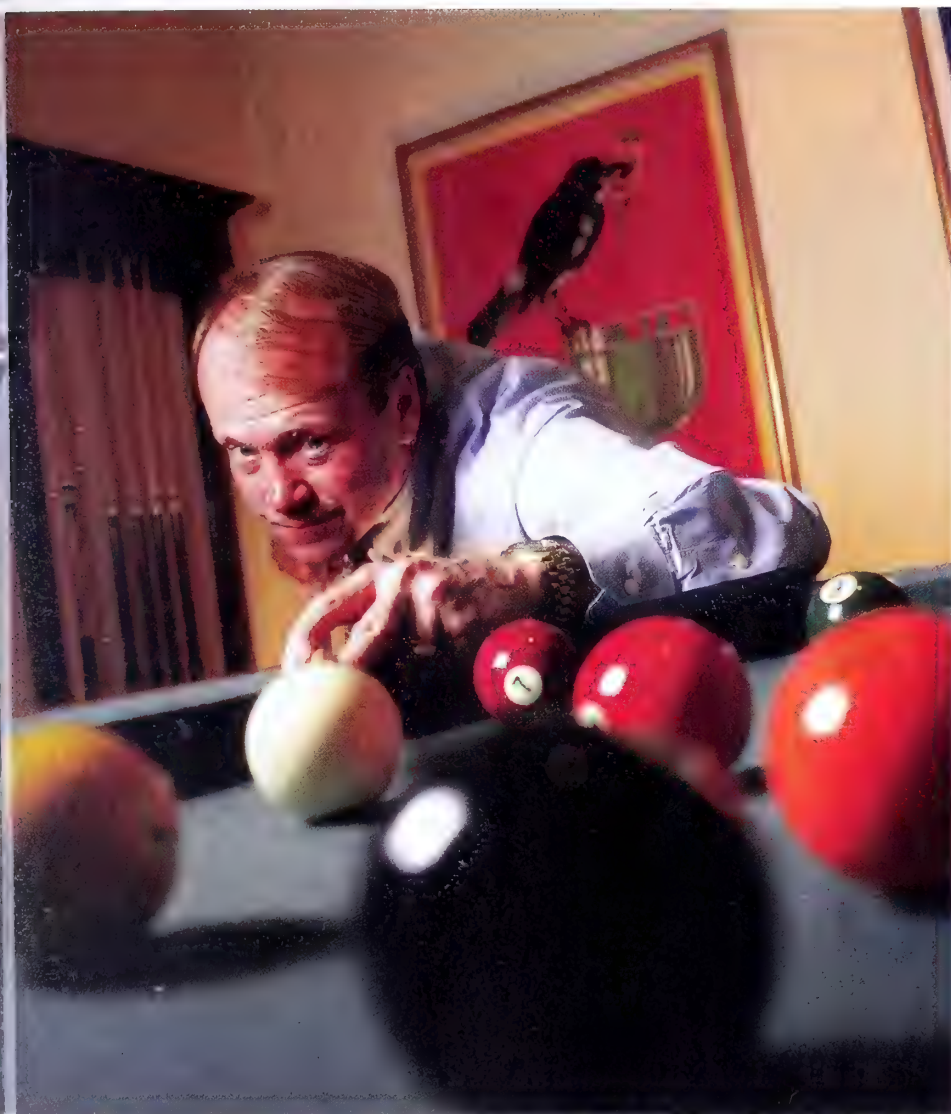
"beige." Michael Dell is a nerd at heart, spending time with his company's engineers and managing much of his empire via E-mail—several hours a night from home is common. In true workaholic style, his \$10 million mountain-top estate is only minutes from company headquarters.

But the style works. In electronic commerce, the ultimate in high-velocity business, Dell's Internet sales have skyrocketed to an astonishing \$10 million-plus a day. Now that's Dellocity.

KEY ACCOMPLISHMENTS

- Boosted PC shipments 66% in the third quarter—four times the industry rate
- Profits should climb 50%, to \$1.5 billion, on sales of \$18.5 billion
- Shares up nearly 260%, to around 75





CISCO'S LIVE WIRE

Will anything slow down Cisco Systems and its supercharged CEO **JOHN T. CHAMBERS**? Not likely. Since taking the helm of the world's largest maker of networking equipment in 1995, the 48-year-old Chambers has quadrupled revenues and profits. In 1998, despite an economic turmoil, he put more distance between Cisco and competitors such as 3Com Systems Inc. and 3M Corp. But Chambers isn't pausing for his success. The fierce competitive exec—who tosses off phrases like “it feels

to win” with utter sincerity—is now turning his attention to a new and even bigger bet, the vast \$175 billion telecommunications-equipment business. And Chambers isn't leaving his troops on bravado alone: With military precision, he's building his management

team and acquiring key technologies.

Above all, he's practicing his specialty—courting customers. Chambers has selling in his blood, and his focus on service is a big part of Cisco's success. Obsessed with customer satisfaction, every night before he goes to bed Chambers listens to about 10 voice-mail messages from staffers in the field reporting the status of Cisco's top accounts.

KEY ACCOMPLISHMENTS

- Shares soared nearly 155%, to a recent split-adjusted 94
- Profits should grow 34% for 1998, to \$2.1 billion
- Revenues expected to rise 35%, to \$9.6 billion

Companies are getting Net-savvy fast, though—Nortel, for example, bought Cisco's longtime rival, Bay Networks Inc., in mid-1998. The showdown will test Chambers as never before. But with a track record like his, he's no one to bet against.

Robert B. Shapiro

MONSANTO



Shapiro, 60, has enlivened Monsanto and excited Wall Street about new drugs. But the payoff on the CEO's biggest bet—blending seeds, drugs, and food into a “life sciences” unit—is years away. A consolidating industry may not give him that much time.

Jill Barad

MATTEL



What a way to end the year. Barad, 47, warned Wall Street in December that earnings would fall 35% for 1998. To strike a better note in 1999, Mattel's CEO needs to pull off her announced \$3.8 billion deal for Learning Company, while jump-starting Barbie sales.

George Bell

EXCITE



Talk about the hot seat. Bell, 41, faces a make-or-break year as he battles Web-portal rivals from Walt Disney to AOL to Microsoft. But with Excite looking a lot like acquisition bait, CEO Bell's biggest job may be to cut a good deal.

Chung Ju Yung

HYUNDAI GROUP



Despite government pressure on Korea's *chaebols* to cut debt, Hyundai's 83-year-old founder shows no signs of slowing. Recent investments, including \$2 billion in North Korea and a \$6 billion takeover of Kia Motors, could overwhelm Hyundai—and add to Korea's misery.

EXECUTIVES TO WATCH IN 1999

Cynthia M. Trudell

SATURN



Trudell, 45, made history on Jan. 1 when she took the wheel at General Motors'

Saturn unit, becoming the first woman to run a U.S. car division. But with Saturn's sales sputtering and its labor relations frayed, she has little time to celebrate. What's ahead? For one thing, a sport-utility vehicle due in 2001.

Junichi Ujiie

NOMURA SECURITIES

For Ujiie, 53, 1999 will be a year of heavy lifting. Japan's largest brokerage got whacked hard overseas in 1998, losing \$1.2 billion on Russian and U.S. securities. Now Ujiie has to find a way to make money in the face of massive turmoil in Nomura's home markets. It's not going to be a cakewalk.



John Dasburg

NORTHWEST AIRLINES



While most of the industry raked in record profits, Northwest actually lost money in 1998. The problem: a pilots' strike, which grounded the carrier for 15 days. Now CEO Dasburg, 56, needs to woo back business fliers, to improve service, and win approval for an alliance with Continental Airlines.



FRONT-LOAD LION

► Not long ago, conventional wisdom in the appliance business was that the U.S. was a mature market with little room for growth. Thankfully for No. 3 Maytag Corp., **LLOYD WARD** doesn't much listen to conventional wisdom. Since becoming head of Maytag's appliances division in 1996, he has astounded the skeptics with his revival of the once-moribund unit.

Front-loading washing machines may not be as sexy as E-commerce or the latest wireless gizmo, but consider this: When Ward took over the division—Maytag's biggest, with more than 50% of revenues—the company was bleeding red ink. But by early this year, sales and profits were skyrocketing. And Maytag's shares have followed suit.

Named president of the \$4 billion company last February, Ward, 49, is considered a shoo-in to succeed CEO Leonard Hadley, who plans to retire in July. That makes Ward just

one of a handful of African-American executives who are now within reach of the corner office. A consummate salesman, Ward hit dirt in '98 by positioning Maytag's pricey \$1,100 Neptune model as the green machine of washers and driers. It didn't hurt that Ward convinced both Best Buy and Sears Roebuck & Co., which sells fully one-third of all appliances, to heavily promote the front loaders as environmentally correct.

Ward's secret weapon is that he gets people excited over just about any kind of product. Before coming to Maytag, he had already proved his marketing mettle building hefty margins as president of PepsiCo's \$1.3 billion Frito-Lay Midwest operation.

Within Maytag, Ward also forged a reputation as a team builder who excels at revving up the troops. A former Michigan State basketball star, Ward is already getting ready to play team captain at Maytag: He's revamping the marketing strategy at Maytag International, Hoover, and other divisions. Count on Ward to keep driving the ball down the court in '99.

KEY ACCOMPLISHMENTS

- Shares soared more than 60% in 1998, to 60
- Profits expected to increase 50%, to \$271 million
- Revenues should grow 18%, to \$4 billion

DEATH. TAXES. INTERNET SERVICE.

NOW THREE THINGS IN LIFE ARE 100% GUARANTEED.

UUNET® is pleased to introduce the industry's first 100% Internet service availability guarantee, part of our comprehensive Service Level Agreement. It means guaranteed access on US leased-line and frame relay connections,* along with guaranteed latency rates and guaranteed 24-7 monitoring of your connections by our Network Operations professionals. In fact, we even guarantee that we'll promptly and proactively notify you of any problems and get your new connection installed when we say we will. So call 1 888 886 3844 or visit info.uu.net/three. And discover one guarantee you can actually enjoy. UUNET, an MCI WorldCom™ Company. Uniting the world of business.



AN MCI WORLD.COM COMPANY

EXECUTIVES TO WATCH IN 1998

M. Douglas Ivester COCA-COLA



The world currency crisis has crushed Coca-Cola's bottom line. After a poor third quarter, Ivester, 51, warned that fourth-quarter earnings would plunge. Other CEOs might turn tail, but not Ivester. In December he agreed to pay \$1.75 billion to acquire overseas rights to 30 of Cadbury Schweppes's brands.

Ellen Marram EX-TROPICANA

After turning around a stagnant Tropicana with a restructuring, Marram, 51, oversaw its sale to PepsiCo for \$3.3 billion in August. Then she left. Anxious to run her own show, she's hunting for a new job. Will she find a CEO chair in 1999?



Douglass A. Warner III J.P. MORGAN



The heat is on Warner, Morgan's 52-year-old CEO. Warner is trying to transform Morgan into a big-time investment bank with big-time profits. But results have been mixed, leading to speculation Morgan will be sold. A warning about disappointing fourth-quarter earnings was only the latest in a series of blows.

TOY STORY

► Talk to **ALLAN WONG**, chairman of Hong Kong-based vTech Holdings Ltd., and you wouldn't know there was an Asian financial crisis. "We're not affected," shrugs this low-key electrical engineer. In a year when most Asian corporations have suffered huge losses, profits at vTech are up roughly 50%. That has helped shares of vTech—the world's leading manufacturer of both electronic learning toys and high-frequency cordless phones—soar.

The key to Wong's success? The 47-year-old executive, who sells mostly to the U.S. and Europe, has a research and development machine that churns out high-quality products at competitive prices. To create his educational toys and phones, he hires "the best people globally" from Silicon Valley to London to Hong Kong. The result: innovative toys such as *Super Animated*, which helps children improve their vocabulary and math skills.

From distribution to customer feedback,



KEY ACCOMPLISHMENTS

- Sidestepped turmoil in Asian economies to boost profits 50%, to an estimated \$105 million
- Hong Kong shares have jumped 43%
- Corporate structure taps into sales, R&D expertise across the globe

Wong leaves very little to chance. vTech has its own extensive sales and marketing network, which allows it to tap into a database of 40 million to 50 million users for feedback on its new products.

Soft-spoken Wong prefers to keep a low profile, even in good times like these. "I'm not the flamboyant type," he says. But he is resourceful. When his two kids were younger, they tested toys. Now teenagers, they test his phone. Obviously, Wong is using every asset to stay ahead.

FINN FATALE

► Only a year ago, **JORMA OLLILA'S** Nokia Corp. was still viewed as something of a novelty: a Finnish company, of all things, that had forced its way into the top ranks of the booming mobile-phone business, joining Ericsson and Motorola. But make no mistake: Nokia's success is no fluke. In 1998, Ollila grabbed first place in global market share, registering record earnings while his competitors announced profit warnings and layoffs.

Ollila, 48, is a former banker who has quietly but firmly inspired his troops to transform Nokia—and Finland itself, for that matter—into a high-tech center. The results have been astounding. Nokia's profits jumped more than 70% in 1998. And over the past five years, sales have more than quadrupled, to

\$10 billion. Key to Ollila's success: outstanding phones with superlong battery life. Nokia's gains in market share have been powered by easy-to-use market winners such as the nifty 6100, AT&T's first choice for its nationwide one-rate calling plan.

Ollila himself remains an enigma. Intelligent and competitive, he plays tennis regularly, but purely for exercise, shunning chat on the court. His management style is generous. He doesn't fire people, even if they screw up.

Truth is, though, screwups are rare.

KEY ACCOMPLISHMENTS

- Shares soared 239% in '98 to 118
- Built Nokia into the world's No. 1 mobile-phone maker, surpassing Motorola and Ericsson
- Profits expected to rise 76%, to \$2.1 billion, on sales up 41%

Ollila is already pushing the next generation of products, mobile phones with links to the Web. That could be going up against Microsoft's Clarius. But the market could be huge, and Ollila has already proved isn't one to be away from a good fight.



CERTIFIED PRE-OWNED LEXUS



3 YEARS/100,000 MILES.

OBVIOUSLY, WE'RE NOT AFRAID OF COMMITMENT.



This could be the beginning of a long and beautiful relationship. Lexus is proudly offering a very committal 3-year/100,000-total-vehicle-mile limited warranty on every Certified Pre-Owned Lexus. Not only that, but a rigorous 128-point inspection and our generous Customer Care Package that includes amenities like 24-hour Roadside Assistance, new-car financing rates¹ and a free loaner car with qualified repairs. The ultimate marriage of convenience? Definitely. Take the plunge and test-drive a Certified Pre-Owned Lexus today. Only at your Lexus dealer.*



lexuscpo.com

©1998 Lexus, a Division of Toyota Motor Sales, U.S.A., Inc. Lexus reminds you to wear seatbelts, secure children in rear seat, obey all speed laws and drive responsibly.

*See your participating Lexus dealer for details on the Lexus Certified Pre-Owned Customer Care Package including the limited warranty and Roadside Assistance.

¹Financing available to qualified customers through Lexus Financial Services.

EXECUTIVES TO WATCH IN 1999

Rolf E. Breuer

DEUTSCHE BANK



Breuer, 61, had been hinting for more than a year that his bank was mulling big moves. In late 1998, he proved it when Deutsche launched a \$9 billion bid for Bankers Trust. But Deutsche's earlier attempt to build a strong U.S. presence failed. Breuer needs to make sure this effort works.

Edgar Bronfman Jr.

SEAGRAM

Seagram's 43-year-old CEO badly needs a hit. Last year, Seagram's movie business, Universal Studios, flopped, its liquor business hiccuped, and Bronfman spent \$10 billion to buy music giant Polygram. Now he must prove that he can actually manage the businesses his family controls.



Henry R. Silverman

CENDANT



Can Chairman Silverman, 58, mend his frayed reputation? Following Cendant's huge accounting scandal, its stock is still at half its former high. His plan: Buy back stock and sell unwanted units. But a generous repricing of his own stock options in October still has investors irked.



CABLE COWBOY

► Nearly two years after coming to cable giant Tele-Communications Inc. from a San Francisco cable outfit, InterMedia Partners, President **LEO J. HINDERY JR.** has adjusted to Colorado living. Outfitted in cowboy boots, he patrols his 1,400-acre ranch north of Denver in a red pickup truck and makes off-color jokes about his cattle. But Hindery is slated to give up

his Western ways for New Jersey as No. 2 executive in AT&T's \$23 billion consumer products division, which handles cable and wireless phones, among other things.

It's the reward Hindery, 51, gets streamlining and revamping TCI, making alluring enough for AT&T to bid \$48 billion stock and cash to buy the cable giant in June. Since Hindery's arrival, TCI's market value has quadrupled. He reduced the company's mountain of debt and returned TCI to the black.

After TCI's deal-minded chairman, John Malone, hired Hindery in early 1997, the president overhauled the company's lackluster customer service, firing 25 of TCI's top managers. He sped up installation and repaired cable boxes by giving more authority to local employees. Plus, he expanded TCI's reach, forming 14 joint ventures with other cable operators.

KEY ACCOMPLISHMENTS

- After losing \$1.3 billion in '96 and '97, revived cable unit earned \$197 million for 1998's first three quarters
- Under Hindery, TCI stock has jumped from 12 to 53

In vivid contrast to acerbic Malone, Hindery is courteous and pleasant. He often tells staffers how much he values them, which makes his 6 a.m. meetings more palatable. Those traits should serve him well in the even tougher job he's headed for

THE BUSIEST BELL

► This Baby Bell's acquisition king didn't miss a beat in '98. SBC Communications CEO **EDWARD E. WHITACRE JR.** hammered out a deal to land Ameritech Corp. for \$62 billion—the biggest phone deal ever. Once it closes, Whitacre will head a telecom giant with some 57 million local lines—almost a third of all phone lines in the country.

With his Texas drawl and soft-spoken charm, you'd never know that Whitacre, 57, is fiercely competitive. Case in point: his bid to bulldoze into the long-distance market. With applications in six states, he has more than any other Bell CEO. So far, they have been to no avail, but, he says, "We won't give up."

The Ameritech deal, which must pass regulatory muster, comes on the heels of his \$4.4 billion purchase of Southern New England

Telephone earlier this year. Last year, he snared Pacific Telesis Group for \$17 billion. And he's growing SBC's key data and Internet businesses at a fast clip.

By adding more phone lines in a growth territory, Whitacre has shown that SBC can reap sales from installing extra lines as users go online. Altogether, '98 earnings should be up 20% to \$3.9 billion, on sales of \$27 billion.

It's all part of Whitacre's plan to take on AT&T and MCI WorldCom. "We can sit back and get picked on," he says, "or get bigger and become more clout." Don't bet on Whitacre getting picked on in '99—or any other year.



KEY ACCOMPLISHMENTS

- Savvy acquisitions built SBC to No. 2 in local phone comparison
- Share price up 41%
- In data and Net markets, third-quarter revenues topped \$550 million, up 33%

Yesterday, you
needed all this.



Today, this is all
you need.

The reliable HP All-in-One does it all:
Prints, Scans, Copies and Faxes.



HP offers a variety
of machines to fit your needs
and budget. Prices start at just
\$299. Stop in and try one today.

Completing your work just got easier thanks
to the HP All-in-One.

Now, in one product, you get a professional
quality printer, scanner, copier, and in some
models a fax machine too.

So instead of wasting your time managing
multiple products, the HP All-in-One helps you
get your work done faster and more efficiently.

Every HP All-in-One is engineered for years

of reliable performance and backed
by award-winning HP Customer Care
and a one-year warranty.

Rather than using up all your desk
space with four separate machines –
get the one machine that does it all.

The HP All-in-One. Dependable. Easy
to use. Designed to work smoothly with
no compromise in quality or performance.

Available at

STAPLES

www.staples.com

www.hp.com/go/all-in-one



**HEWLETT
PACKARD**

Expanding Possibilities

©1998 Hewlett-Packard Company

ENTREPRENEURS

Has there ever been a better time to be an entrepreneur? Certainly not for those connected in any way, shape, or form to the Net. From Boston to Silicon Valley to the Far East, those entrepreneurs who were clever enough to tap into one of the biggest business booms ever have seen their fortunes snowball. But plenty are also succeeding outside of cyberspace. For en-

trepreneurs everywhere, good ideas and the energy and knowhow to pursue them were the keys to success in 1998.

NAME YOUR PRICE

► Who ever thought an online garage sale could be worth \$12 billion? Not **PIERRE OMIDYAR**, 31, who started his Net auction service, eBay, to help his girlfriend collect Pez candy dispensers. **MEG WHITMAN**, 42, who was managing Hasbro's Playskool and Mr. Potato Head lines, joined as CEO in '98. Her big company business smarts and marketing skills smoothed the way for eBay's September IPO. With '98 earnings before charges expected to hit \$5.9 million on \$36 million in sales, shares have rocketed more than 1,500%.



A KEEN SENSE OF S

► **DAVID S. WETHERELL**, 44, has a knack for spotting companies with staying power. His CMGI Inc., a holding company with controlling stakes in such popular sites as Lycos and GeoCities. He joins early and guides their growth. All together, his ventures rank No. 2 in Internet traffic, trailing only Amazon. That kind of reach, plus a \$39 million profit in the fourth quarter, pushed CMGI stock up 693% in '98.

WINNING WILD

years ago, **HELEN ROCKEY**, now 42, left become CEO of money-losing Brooks she has quickly returned the running-er to the black, while doubling sales to \$5 million in '98. Her secret? Innovative i more cushion and support, and grass-zeting. By backing popular local moun-g and running events, she figures to es again by 2001.



VIRUS HUNTER

► Somewhere out there, cyber-vandals are hatching new computer viruses. And **STEVE CHANG**, 44, is ready for them. His Tokyo-based Trend Micro is a leader in the explosive global market for protecting network servers against viruses. Already No. 1 in Asia, it also makes software for Sun Microsystems and Netscape. Trend Micro's '98 sales should hit \$93 million, up 52%, with profits up 50%, to \$15 million. Chang got into file protection after software pirates ripped him off. They should have left him alone.



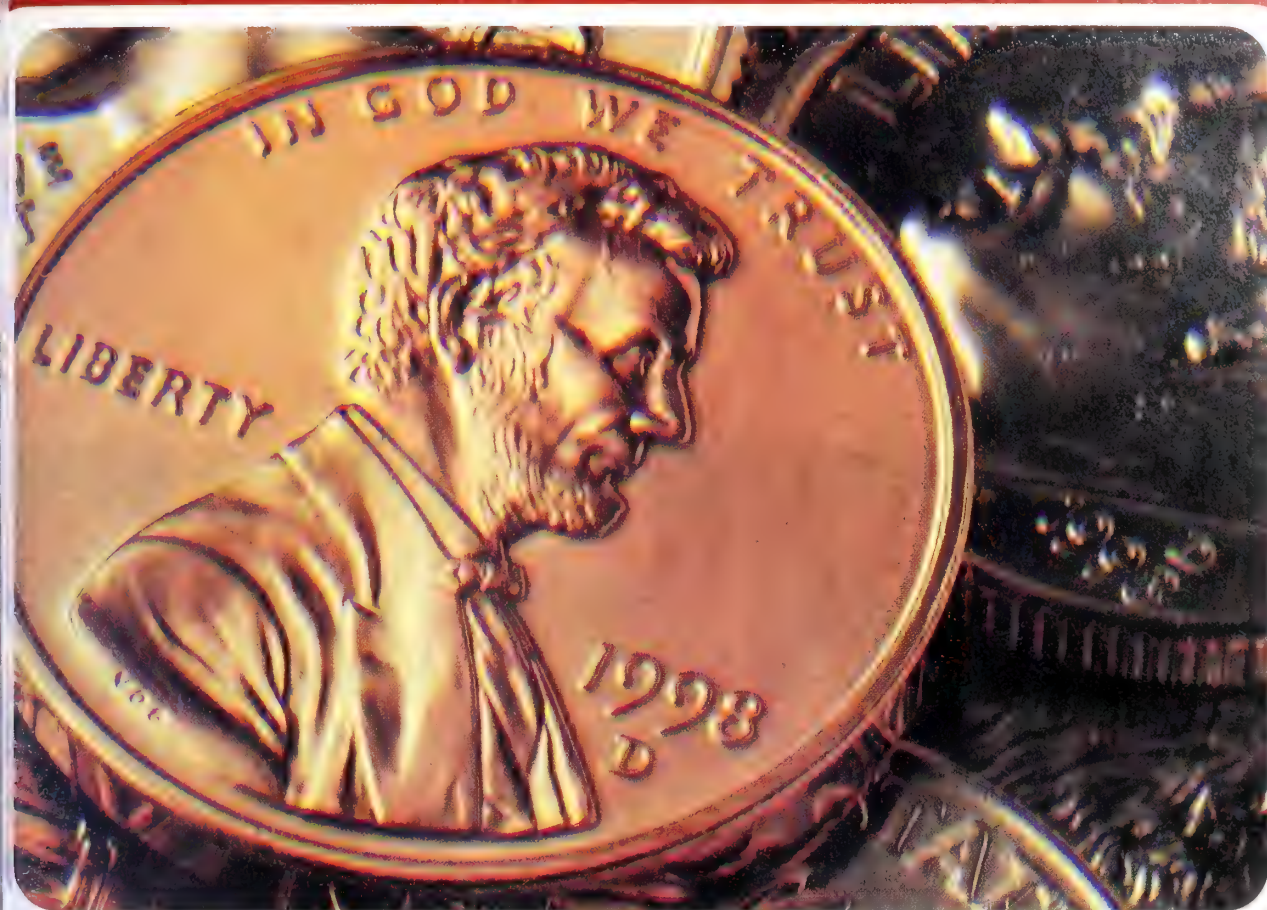
PROFESSOR PROFIT

► At 78, **JOHN SPERLING** is Mr. Adult Education. The former San Jose State University prof has built an empire catering to the needs of older students. His Apollo Group, which runs the for-profit University of Phoenix, boasts 74,500 students, all over 23. Don't expect ivy-covered towers. Students come to his 119 campuses in 19 states because classes run year-round—at night—can be finished in six weeks. Over the last two years, earnings have more than doubled, to \$46.3 million, sales up 83%, to \$391 million. For the year ending in August, growth should continue at around 30%.

WEB MASTERS

► If the future is watching TV and holding meetings over the Internet, then **MARK CUBAN** (right), 40, and **TODD R. WAGNER**, 38, are already there. The Three-year-old broadcast.com gives Web surfers around the globe easy access to hundreds of radio and TV stations. They can also receive CDs, video and audio books. But most important to its growth are the surging numbers of companies paying up to \$350,000 to broadcast meetings over the system. With usage jumping 30% every three months, shares have soared 380% since its July 1997 IPO.





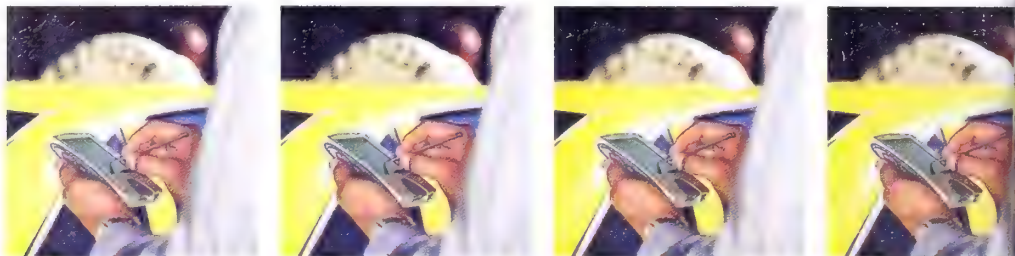
CNA covered the company that covered the Denver Mint.

When it came time to replace the roof over the Denver Mint, CNA was there to cover it. CNA worked with B&M Roofing by providing them with general liability insurance, workers' compensation, commercial auto coverage and a surety bond. By bringing you more than a century of experience and the financial stability of over \$60 billion in assets, CNA can offer you a broad array of insurance products and services for your business, home, auto and life. Visit us at www.cna.com



For All the Commitments You Make®

CNA is a registered service mark and trade name of CNA Financial Corporation
Any depiction of the Mint does not imply endorsement of CNA by the Mint



**Put Windows in the palm
of your hand—a feat that,
until recently, could only be
accomplished by people
with enormous palms.**

Get a Palm-size PC with an operating system you're already familiar with—one with Windows' CE. These Palm-size PC manufacturers use Windows CE: Casio, Everex, Philips and Uniden.

*If you know **Windows**, you know **Windows CE**.*

www.microsoft.com/windowsCE/ppc **Microsoft**

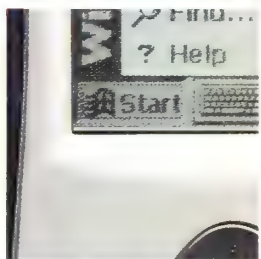


- Calendar
- Channels
- Contacts
- Inbox
- Note Taker
- Tasks
- Voice Recorder

File Edit Go Tools

Jane Burns, ABC Company
Work #: (206) 555-1212
W Fax #: (206) 555-1313
Email: jeb@123.com
Work: 7890 A Street
Seattle

china, crystal
Gardner, Web



Powered by
Microsoft
Windows CE

Industry

Strong productivity, willing consumers, and low inflation may again confound the doomsayers

BY MICHAEL J. MANDEL

T

he biggest question for industry in 1999 is a simple one: Can the U.S. economy beat the forecasts for a fourth year in a row? Going into 1996, 1997, and 1998, most economic forecasters expected modest growth of 2% or so. Each year, however, the actual number turned out to be much higher—hitting 3.5% or more.

In 1999, according to virtually every economic forecaster, the good news will definitely be coming to an end. The consensus once again is drab, calling for only 1.9% growth from the fourth quarter of 1998 to the fourth quarter of 1999. The reason, the forecasters say, is a combination of profound weakness overseas and a slowdown in capital spending at home. Americans will not be able to keep up the free-spending ways that helped power the economy in 1998. "The consumer is tapped out," says David Wyss, chief economist of Standard & Poor's DRI, who sees 1.8% growth over the next year. "It's difficult to understand how people can spend this much again."

If Wyss and the other forecasters are right, 1999 will be a year of weak profits and weak revenue growth across the broad spectrum of U.S. industries. Nobody will escape, and some sectors of the economy, such as steel and commodities, could be punished badly. Slow growth abroad will put the clamp on exports. Makers of

construction equipment and other capital goods will have to retrench. And consumer-goods companies will face a more reluctant buying public.

Indeed, the latest BUSINESS WEEK/Harris poll of top executives at large companies shows a rising tide of worry about 1999. As of December, 27% of the polled executives were somewhat pessimistic about the coming year, while only 14% felt that way going into 1998. Roughly 35% of the executives expect to reduce, over the next year, the number of full-time workers they employ. And 22% expect to decrease their capital spending in 1999—a move that could help dampen growth.

But while the economy may not be able to duplicate the 3.5%-plus growth of recent years, the projections of a sharp 1999 slowdown should be taken with a grain of salt. Inflation has dropped to levels not seen since the 1960s, even in the service sector, suggesting that the economy has more room to grow without overheating. Productivity growth is still strong as companies intensely focus on cutting costs and boosting profits. And perhaps most important, consumer spending—powered by rising wages and slowing inflation—may turn out to be stronger than forecasters expect.

"In the U.S., we still believe it's going to be a pretty good year," says Robert J. Eaton, chairman and CEO of DaimlerChrysler. "There isn't any reason that can't continue. I'm not saying it will—but there isn't any reason it can't." **"OFF THE CLIFF."** Indeed, there is little evidence now that Americans are outspending their means. "It's the perpetual forecast, that the consumer will drop off the cliff," observes Rosanne Cahn, chief economist of the equities division at Credit Suisse First Boston. Cahn is predicting that the economy will grow by 3.4% in 1999, but can't see why the consumer will punk out.

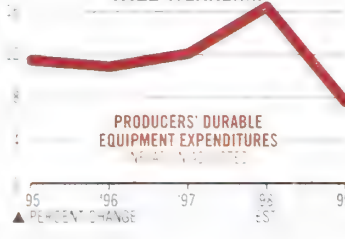
To be sure, there is certainly good reason

THE CASE FOR A SLOWDOWN

CONSUMER SPENDING WILL SLOW...



...BUSINESS INVESTING WILL WEAKEN...



...AND THE TRADE DEFICIT WILL BE A DRAIN



Outlook

be cautious about 1999. For one thing, a repeat of last fall's global financial panic could occur, with Russia continuing to slide downhill and Brazil struggling to afloat. Many countries in East Asia, including Japan, still have fragile financial systems could crash and burn. Weak corporate earnings could trigger a serious plunge in the U.S. market, halting consumer spending in its tracks. And a long trial of President Clinton in the Senate—if the Senate fails to reach a compromise ending the trial quickly—could create major uncertainty for investors and companies. All told, it's easy to construct a scenario in which the economy falls into recession in 1999.

It's also easy to imagine growth could come in stronger than the forecasters expect. Consider this: Over the past half-century, the main constraint on growth has been rising prices. Usually, too much growth would cause the economy to overheat, igniting inflation and leading the Federal Reserve to raise interest rates. This time around, price increases have remained under control, despite the strong growth and the low unemployment rate. The core inflation rate is running at 2.4%, up only a bit over last year. More important, the inflation rate in the service sector has actually been falling. Prices for consumer services have risen by only 1.5% over the past year, down from 2.8% the previous year, and the slowest rate since 1965. If inflation is far lower than expected, there is no reason for the Fed to rein in economic growth. In addition, low inflation will help keep interest rates down, giving home sales and mortgage refinancings a boost.

The consensus economic forecast also assumes a sharp slowdown in productivity growth, from 2% in 1998 to only 1% or so in 1999—close to the trend of the 1980s. But that may be excessively pessimistic, since the near-record number of job-cut announcements in 1998 suggests that companies are doing everything they can to reduce costs and boost output per worker. Through November, U.S. companies had announced plans to cut 575,000 workers, about 50% ahead of the 1997 rate and close to the 1993 record pace.

BULLISH RETAILERS. The ongoing merger explosion is pushing companies to find new efficiencies. Aetna Inc. expects its acquisition of Prudential HealthCare to save \$130 million to \$150 million per year after taxes. The Exxon-Mobil merger will lead to the elimination of 9,000 jobs, while on Dec. 11, MCI WorldCom announced plans to cut 2,000 positions in the U.S. "This is what business has to do to preserve

profit margins," says Cahn.

At the same time, many industries are continuing to spend heavily to boost productivity and expand their markets. Railroads are expected to continue their heavy capital investments, which independent analyst Anthony B. Hatch figures will increase to more than \$7 billion in 1999 from about \$6.5 billion in 1998. Says Craig F. Rockey, senior assistant vice-president at the Association of American Railroads: "The only way the railroads are going to hold their huge productivity gains is to continue to keep the investment flowing into the in-ground and above-ground assets" (page 128).

Certain retailers are also bullish. Wal-Mart Stores Inc. has aggressive growth and capital-spending plans this year. Capital expenditures

93	INFORMATION	
	LIFE SCIENCES	103
111	MANUFACTURING	
	DISTRIBUTION	123
131	SERVICES	
	FINANCE	139

LEADERS

COMPUTERS AND CHIPS

Demand poised for a comeback after three tough years

DRUGS AND BIOTECH

Hot new products; higher prices signal another record year

HEALTH CARE

Insurers hold the line on payouts, raise premiums

REAL ESTATE

Low interest rates, high demand, but no overbuilding

LAGGARDS

AGRICULTURE

Weak demand, oversupplies, and Asian crisis wreak havoc

ENERGY

No sign of recovery for depressed oil prices

INSURANCE

Pressure from flat pricing, stagnant demand, and Y2K crisis

METALS

Prices still under pressure from imported steel

GROWTH SURPRISE

There's been a surprise under the economy's surface. Inflation is low, and productivity is strong. They could be a sign of a new era in 1999.



are expected to approach \$5 billion, the company's highest ever. As part of its growth plan, Wal-Mart will open about 150 supercenters, selling food and general merchandise, and 80 new stores abroad. "We're going to be very aggressive with our international growth," says David D. Glass, CEO of Wal-Mart (page 124).

At home, Americans could still keep spending in 1999—not necessarily at the same powerful rate of growth as in 1998, but faster than the consensus forecast predicts. Adds David R.

wage gains will continue to drive spending. Plus, there is simply no evidence that consumers are overdrawn, despite the spending surge in 1998. Over the past year, total wage and salary payments, before adjusting for inflation, have risen by 6.7%, outpacing the 5.5% increase in consumer spending. By contrast, in the 1980s, consumers were left strapped as their spending growth trailed the gains in wage income. And consumer installment debt totals just under 18% of income about the same level as a year earlier.

"A HORRIBLE MARKET." True, the personal savings rate in the third quarter was close to zero. But that omits capital gains and the benefits of stock financing, both of which were important factors in improving the financial position of households in 1998. And the Commerce Dept. typically releases income and the savings rate in an upward direction as new data come in. "Every time we do the forecast, we think people don't have the money to spend, and they do," admits DRI's Wyszynski.

If consumer spending is going to stagnate, the shift is not yet showing up in auto production. Despite forecasts of flat auto sales in 1999, General Motors Corp. is planning to boost first-quarter production of cars and light trucks by 7% compared with a year earlier, while Ford Motor Co. is planning a 12% increase (page 112).

Of course, even a stronger-than-expected economy won't help everyone. With a global economy that is likely to still be weak, 1999 will continue to be tough for some industries. According to the

Despite the spending surge in 1998, there simply is no evidence that consumers are overdrawn. And wage gains could drive spending again in '99

Goode, CEO of Norfolk Southern Corp., which acquired part of Conrail Inc. and will be merging the two systems in the first quarter of '99: "We're seeing mixed signals in the economy, but there are some indications that the consumer economy is still strong."

Where will the consumer strength this year come from? One source could be wages, which, adjusted for inflation, have been rising at an annual rate of 2.5%, the fastest rate in a generation. As long as corporate productivity continues to rise and unemployment stays low, such

BUSINESS WEEK / HARRIS EXECUTIVE POLL

SUDDENLY, SOME TREPIDATION AT THE TOP

Impeachment jitters—or a sign of darker days to come? To a degree unwitnessed since BUSINESS WEEK began polling them in 1993, top executives have grown disenchanted with the state of the economy. Half expect that GDP growth will fade in the next year, and 57% believe joblessness will rise. Both predictions represent startling turnabouts from the raging bullishness of a year ago. More execs say their

companies will cut back on hiring, and investment plans show average growth of just 0.8%, down from 6.2% last year. The anticipated profit growth for the year averages 6.9%.

All told, more than a quarter of respondents say they are pessimistic. They don't blame the White House: They are satisfied as ever with the way President Clinton is handling the economy.

HIGHER ANXIETY

Overall, how would you characterize your outlook for the U.S. economy in the next 12 months?

	1998	1997	1996	1995	1994	1993
Very optimistic	6%	23%	13%	8%	13%	3%
Somewhat optimistic	67%	73%	80%	79%	76%	80%
Somewhat pessimistic	27%	4%	7%	13%	11%	16%
Very pessimistic	0%	0%	0%	0%	0%	1%

GRIMMER ABOUT GROWTH

Compared with the last 12 months, do you think the rate of growth of the gross domestic product will...

	1998	1997	1996	1995	1994	1993
Go up	13%	27%	27%	30%	38%	25%
Go down	50%	29%	18%	25%	26%	9%
Stay the same	37%	44%	55%	45%	36%	66%

THE BEAST STAYS TAMED

Compared with the last 12 months, do you think the rate of inflation, based on the CPI, will...

	1998	1997	1996	1995	1994	1993
Go up	13%	25%	31%	12%	53%	40%
Go down	18%	13%	5%	15%	6%	5%
Stay the same	68%	62%	63%	73%	41%	55%
Don't know	1%	0%	1%	0%	0%	0%

NO LEAPS IN INTEREST RATES

Compared with where it is right now, do you think the 30-year Treasury rate will...

	1998	1997	1996	1995	1994	1993
Go up	19%	34%	38%	24%	57%	6%
Go down	36%	26%	17%	47%	18%	1%
Stay the same	43%	36%	39%	25%	24%	72%
Don't know	2%	4%	6%	4%	1%	0%

by DRI, the world economy outside of the U.S. will grow by only 0.8% in 1999, a near-zero rate. As a result, there are tremendous amounts of excess capacity globally. A flood of cheap steel, for example, has lowered prices 10%, pushing two steel companies into bankruptcy. "It is a horrible market," says Paul J. Elms, president of USX-U.S. Steel Group, "and we have laid off more than 500 workers and closed blast furnaces at Lorain, Ohio, and Indiana." (page 116).

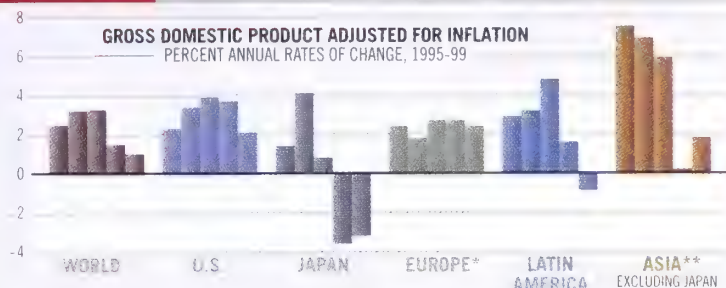
At the same time, the global slowdown could be a damper on capital spending. As of November 1998, the capital utilization rate in manufacturing had fallen to 79.8%, the lowest level since 1982, so that companies are under far less pressure to expand capacity. Kellogg Co., for example, announced that it would cut capital spending to \$100 million in 1999, down from \$400 million this year. And with crude prices very low, oil companies are cutting capital-spending budgets sharply.

HOPE. The slowdown in capital spending is not a sign of extending into the high-tech sector as well. According to a survey of senior executives by Morgan Stanley Dean Witter, information technology spending by corporations in 1999 will grow at a rate of between 4% and 6%, compared with growth of 7% to 9% in previous years. And BT Alex. Brown is projecting that growth in capital spending by U.S. telecom carriers is likely to slow down to a 4% pace in 1999, compared with 13% growth in 1998 (page 98).

Even in telecom there are bright spots. Remember the fact that many of the Latin Amer-

GLOBAL ECONOMY

GROSS DOMESTIC PRODUCT ADJUSTED FOR INFLATION
PERCENT ANNUAL RATES OF CHANGE, 1995-99



*EUROPE INCLUDES AUSTRIA, BELGIUM, DENMARK, FINLAND, FRANCE, GERMANY, GREECE, IRELAND, ITALY, NETHERLANDS, NORWAY, PORTUGAL, SPAIN, SWEDEN, SWITZERLAND, TURKEY, AND BRITAIN

**ASIA INCLUDES AUSTRALIA, CHINA, HONG KONG, INDONESIA, INDIA, KOREA, MALAYSIA, NEW ZEALAND, PAKISTAN, PHILIPPINES, SINGAPORE, TAIWAN, AND THAILAND

DATA: STANDARD & POOR'S DRI

ican economies are slowing, BellSouth Corp. has been very aggressive there, bidding \$1 billion for a wireless license in São Paulo and investing another \$500 million in capital expenditures to get the system running. "We've seen a little drop-off in demand, but nothing to give us pause," says F. Duane Ackerman, CEO of BellSouth.

Every year, the forecasters say that it doesn't get any better than this, as they predict a slowdown for the next year. Maybe they are right this time—but the economy has the momentum and the fundamental strength to surprise them again.

With Wendy Zellner in Dallas, Peter Elstrom in New York, and bureau reports

UP IN THE JOB MARKET

Compared with the last 12 months, do you think the unemployment rate will...

	1998	1997	1996	1995	1994	1993
.....	57%	27%	28%	35%	17%	21%
.....	5%	15%	19%	15%	33%	34%
.....	38%	58%	53%	50%	50%	45%

WINDS OF CHANGE FOR THE PREZ

How do you rate President Clinton's handling of the economy?

	1998	1997	1996	1995
.....	13%	8%	5%	3%
.....	39%	43%	40%	34%
.....	35%	41%	41%	50%
.....	8%	6%	10%	12%
.....	5%	2%	4%	1%

THE IMPACT OF ASIA'S STRONG GRIP

What impact, if any, do you expect the continuing political and economic instability in Asia will have on your business?

	DEC. 1998	JUNE 1998
.....	0%	0%
.....	5%	7%
.....	31%	36%
.....	53%	52%
.....	9%	4%
.....	2%	1%

EASING UP ON THE GAS

And now some questions about your expectations for your company over the next 12 months. Do you think each of the following will increase or decrease between now and December, 1999?

	INCREASE	DECREASE	STAY SAME	DON'T KNOW	AVG. NET INCREASE
Sales					
1998	79%	12%	6%	3%	7.0%
1997	90%	5%	3%	2%	9.5%
Net Profits					
1998	75%	17%	5%	3%	6.9%
1997	85%	9%	4%	2%	10.1%
Full-time employees					
1998	46%	35%	18%	1%	1.8%
1997	59%	25%	14%	2%	2.6%
Investment in plant and equipment					
1998	50%	22%	22%	6%	0.8%
1997	73%	13%	10%	4%	6.2%
Typical prices of standard products or services					
1998	44%	27%	26%	3%	0.4%
1997	57%	21%	18%	4%	1.2%

EDITED BY KEITH H. HAMMONDS

Survey of 303 senior executives at large public corporations. Interviews were conducted Dec. 8-17, 1998 for BUSINESS WEEK by Louis Harris & Associates Inc. Complete results are available at www.businessweek.com or on AOL, keyword: BW.

Who gives Kimberly-Clark[®] personal care?

the answer is

**Deloitte &
Touche**



©1999 Deloitte & Touche LLP and Deloitte Consulting LLC. Deloitte & Touche refers to Deloitte & Touche LLP, Deloitte Consulting LLC and related entities.

www.us.deloitte.com

INFORMATION



COMPUTERS & CHIPS After three years of tough times, the semiconductor and computer industries stand a decent chance of some good news in 1999. But if Asia's crisis worsens or spreads, all bets are off. *Output* for 1999: +15.36%*

94

SOFTWARE There's still plenty of Y2K anxiety out there, but by summer, many large companies will be looking beyond the millennium bug. For a software industry buffeted by wild market swings, that's welcome news. *Revenue for 1999: +6.24%*

TELECOMMUNICATIONS It's the year of the regulator, and those companies that can burst through the red tape—or avoid it altogether—have a strong chance of becoming the industry's titans in the 21st century. *Revenue for 1999: +4.28%*

98

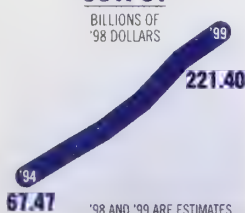
MEDIA AND ENTERTAINMENT Cable modems and high-definition TV, Web surfing and satellite broadcasting: The race to put digital media into America's homes is on, and it's not at all clear who the winners will be. *Revenue for 1999: +0.92%*

00

COMPUTERS AND CHIPS

P R O G N O S I S 1 9 9 9

OUTPUT

BILLIONS OF
'98 DOLLARS

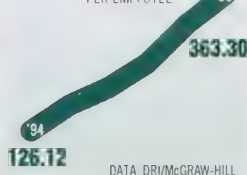
'98 AND '99 ARE ESTIMATES

EMPLOYMENT

MILLIONS OF WORKERS



PRODUCTIVITY

THOUSANDS OF '98 DOLLARS
PER EMPLOYEE

DATA: DR/MCGRAW-HILL

POSITIVES

► PC sales growth will accelerate to 14% after a disappointing 1998

► After three tough years, the semiconductor industry is expected to bounce back with 9% growth

NEGATIVES

► Asian economic turmoil remains a major brake on technology growth

► The Year 2000 bug could hammer demand in the second half as corporations "lock down" their computer systems

I

s that a ray of hope on the silicon horizon? Maybe. After three years of tough times, the semiconductor and computer industries could finally get some good news in 1999. But it's not a sure

thing: If there's no sign of a return to global stability—or worse, if Asia's crisis spreads—the longest silicon slowdown could set a new record.

This time last year, the hope was that high tech would bounce back from a disappointing 1997. No such luck. The Asian crisis and a U.S. inventory glut conspired to clobber makers of chips and computers. Semiconductor companies in particular took a lashing. Industry revenues dropped 11% for the year worldwide, and profits plunged 26%. Computer makers fared better. Unit sales of PCs rose 11% despite soft demand in Asia—but pricing pressure kept revenue growth nearly flat and pulled down profits.

For 1999, executives and analysts are guardedly upbeat. The slump in chips seems to have bottomed out last August. "I'm hopeful that we're past the worst for the industry as a whole," says Craig R. Barrett, chief executive of Intel Corp. Even the world's largest chipmaker suffered a profit decline for 1998—Intel's first annual dip in a decade.

PROFIT PUSH. The Semiconductor Industry Assn. now predicts 9% growth for this year. Still, total revenues will barely top \$133 billion, some 8% below their peak in 1995. Not until 2000 will chips return to double-digit growth and hit a new revenue record, pegged at \$154 billion by SIA.

The computers that gobble up those chips should fare better. PCs are expected to notch 14% growth this year, to 105 million units, according to market researcher Dataquest Inc. What's more, the steep, two-year decline in PC prices should abate, allowing computer makers to restore profitability. After falling by 1% in 1998, computer earnings will surge 40% this year, according to consensus estimates collected by First Call Corp. Chalk that up to better inventory management and strong demand for high-end server and workstation computers. They're expected to grow 16% and 23%, respectively, and help balance the razor-thin margins earned by consumer PCs.

Bargain-hunting consumers needn't fret about price rises, though. The race to plumb the bottom may slow—but it will continue. Newcomer emachines Inc., for example, now of-

fers a \$399 PC, and even resurgent IBM has rolled out a new model. In 1997, about a quarter of the PCs sold at U.S. retail stores cost \$1,000 or less, says researcher ZD Market Intelligence. By 1998, that proportion had risen to 43%. In 1999, this trend will continue.

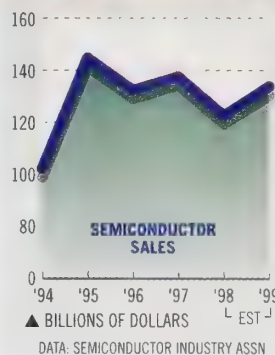
BACK TO ASIA. The most surprising story of 1998 was the resurgence of Apple Computer Inc. All but written off after the return of founder Steven P. Jobs in 1997, Apple is roaring back on the strength of its snazzy iMac computer. Buyers snapped up more than 630,000 of the \$1,300 iMacs between August and yearend, restoring Apple's profitability and boosting its third-quarter U.S. market share to 5.2%, up from 4% for 1997. "Apple is doing an excellent job," says analyst Michael K. Kwatinetz of CS First Boston. The question, though, is whether Apple can translate its recent rebound into a sustained recovery.

Much the same question could be asked about this year's predicted snapback in PC profits overall. The rise of cheap PCs clouds the outlook. In 1998, revenues for U.S. PC makers inched up a mere 1%, to \$53.4 billion, as unit shipments surged 14%, to 36 million, says Forrester Research Inc. This year could be a repeat, with units climbing 14% but revenues rising just 3%, to \$55 billion. Some PC makers hope to compensate by cultivating volume markets, mainly among homeowners who are snapping up low-priced products. In October of last year, says researcher International Data Corp. (IDC), nearly 46% of U.S. households had a PC, up from 41% a year earlier. But that's only one of the 90%-plus of homes with TVs and VCRs.

PC makers are also pinning their hopes on emerging economies. The Asian crisis stunted PC growth that region last year, with unit sales falling 2.5% in Japan and 1.3% in the rest of Asia, according to International Data Corp. (IDC). But in 1999, the non-Japanese Asian market could grow nearly 16%. And even troubled Japan will see a 6% increase in PC sales, predicts IDC, assuming its economy starts to bounce back.

Aside from economic uncertainty, the biggest question facing the industry is the Year 2000 bug. Analysts believe companies will tilt computer purchases to this year's first

SPOTLIGHT



DATA: SEMICONDUCTOR INDUSTRY ASSN

lock down" to test for Y2K bugs
void introducing new glitches. If
sales skew could portend a lean
half for computer vendors, says
Steven M. Milunovich of Merrill
& Co.

It might also send Intel's results
again. The company's surprising
turn in 1998 was caused by an un-
combination—slack demand, higher
production costs, and growing competi-
tion from rival Advanced Micro Devices
as Intel restored its luster with a
fourth quarter. Analysts say that
momentum should carry into 1999,
setting record first-half revenues and
profits. And the microprocessor king
must escape a second-half slowdown be-
fore it will roll out a new chip, code-
named Katmai, with vastly improved 3-D
graphics capabilities. Katmai could spur a
wave of PC upgrades among consumers
and give the latest whizbang feature.
On the other hand, Intel's much antici-
pated Merced chip, its first 64-bit proces-
sor, will be delayed until 2000.

Intel's market share eroded last year,
and more losses are coming this year. In
1998, Intel sold 86% of all "Wintel"
systems—the brains of PCs that run
Microsoft Corp.'s Windows software. By
the end of 1998, Intel's figure had slipped to
81%. Meanwhile, AMD's market share
dropped five points, to 12%, "and it will
continue to gain share in 1999," predicts
analyst Kelly S. Henry. She and
others expect AMD to get a big boost
from its upcoming K7 chip, which is slated
to make its debut late this year.

S. Prospects for National Semi-
conductor Corp. are mixed. The company
struggled in 1998 in many of its
core and-butter ASIC chips, or applica-
tion-specific integrated circuits. But its
microprocessors are increasingly
popular for low-cost PCs from the likes of
Dell, NEC Inc. and IBM, so Cyrix
scored marginal gains against Intel.
Overall, unit sales of Intel-compatible

processors should grow 17% this year, while revenues climb
for the beleaguered producers of memory chips, though,
they offer scant solace. Yes, the uncommonly steep price de-
cline of the past three years are finally slowing. And demand
is expected to grow: The average amount of memory in PCs will
jump from 37.8 megabytes in 1997 to more than 90 MB this
year, predicts IDC. But there will still be a capacity glut for
random-access memory (DRAM) chips. So prices will
remain weak. After losing perhaps \$9 billion in 1998, says
analyst Jim Handy, DRAM makers can expect to
lose \$1 billion more this year.

Japanese and Korean DRAM makers, the red ink has

READING THE PALM MARKET RIGHT

The roster of failed pen-based
computers could fill a technology
hall of shame. They range from the
Tandy Zoomer and Go Corp.'s Pen-
point devices to, most notoriously,
the Apple Newton. With a legacy like
that, the success of 3Com's Palm
computer is all the more remarkable.
More than 2 million of the dimin-
utive devices have been
snapped up in two years—
10 times as many as all of
its predecessors combined.

"Palm looked at everything done
wrong in the past and made a prod-
uct that hit all the buttons," says
analyst Diana Hwang of researcher
International Data Corp.

In the process, Palm also created
an alternative to Microsoft Corp.'s
ubiquitous Windows operating sys-
tem. Measured in unit sales, no other
mass-market computer
since the Apple Macin-
tosh has sold as well
against IBM-compati-
ble PCs. Some 12,000
software developers
have signed on in support
of the Palm.

This activity hasn't gone
unnoticed by Microsoft,
which offers a slimmed-
down version of Win-
dows called Windows
CE for handhelds.

Palm-size computers
using Windows CE arrived

last summer from Philips, Everex,
and Casio, but they have only nib-
bled at the market. 3Com controlled
88% of retail sales last fall, says
researcher Intellect ASW.

In 1999, IDC's Hwang expects the
handheld market to grow 43%, to
6.5 million units—and most of the
new units will come from 3Com.

Coming this summer is its
Palm VII, with wireless
access to the Net. Also on
deck is a cell phone from

Qualcomm that runs Palm software.
And by the end of the year, the
Palm's creators, who left 3Com to
launch a startup called Handspring
Inc., could ship a new consumer
device. "Every college kid will be
carrying one of these things within
five years," says Donna L. Dubinsky,
CEO of Handspring.

By 2000, though, 3Com will
face stiffer competition: a new
version of Windows CE and a
joint venture of Psion, Nokia,
Motorola, and Ericsson.

"The center of gravity in
computing is shifting to
mobile devices that
combine voice and Net
access," says J. Gerry
Purdy, president of
consultancy Mobile
Insights Inc. At stake
is a market that soon
could number in the
hundreds of millions.

FOCUS HANDHELDS



PHILIPS' NEW HANDHELD:

Nibbling at the market

curtailed investments in new chipmaking equipment. Com-
panies such as Applied Materials Inc. and Novellus Systems
Inc., which supply the gear for making chips, don't see a turn-
around this year. Equipment sales plummeted roughly 23%
last year, to \$14.3 billion, and will creep up to just \$15 billion
for 1999. Starting in 2000, though, new technologies such as
copper circuitry should spur a wave of equipment upgrades.
"Customers have to invest to compete" during the double-dig-
it spurt in chip sales expected at the start of the next mil-
lennium, says Applied CEO James C. Morgan. The rest of the
industry can only hope he's right.

By Andy Reinhardt in San Mateo, Calif.

Apple's rebound was the surprise of 1998. The question now: Can Jobs keep it going?

SOFTWARE

P R O G N O S I S 1 9 9 9

OUTPUT

BILLIONS OF DOLLARS



INCLUDES DATA PROCESSING

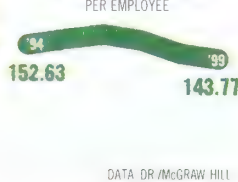
EMPLOYMENT

MILLIONS OF WORKERS



PRODUCTIVITY

THOUSANDS OF '98 DOLLARS PER EMPLOYEE



POSITIVES

- ▶ Electronic commerce will fan sales of Web-site tools, billing software, and other Internet applications
- ▶ Companies selling enterprise applications should see sales grow about 30% or more

NEGATIVES

- ▶ Asia's slump could damp global expansion by U.S. software startups
- ▶ Y2K will sap corporate information technology resources, diverting funds from new, cutting-edge applications



As the world hurtles toward the new millennium, the mood in the \$154 billion global market for packaged software is swinging between euphoria and controlled panic.

William T. Coleman III has witnessed the swings close-up. Last fall, the chief executive of BEA Systems Inc. was making money hand over fist, licensing his transaction-management programs to the likes of AT&T, Northwest Airlines, and Motorola. Then, in mid-November, some key customers postponed purchases. In a single day, Wall Street knocked BEA's shares down from 26 to 14, vaporizing nearly \$1 billion in value. All that BEA's customers had done was whisper Y2K. "We had to lower our growth estimates because customers were diverting their efforts to deal with the bug," Coleman recalls.

Customers swear by BEA. "There are very few products in the market I've been as happy with," says Debra J. Chrapaty, president of E*Trade Technologies, an arm of online investor E*Trade Group in Palo Alto, Calif. But such testimonials can't stand up to millennium-bug fears. Last fall, investors alternately inflated and pounded the shares of top companies such as SAP, PeopleSoft, and J.D. Edwards—mainly on speculation about Y2K. Some of the schizophrenia will carry over into 1999, warns Bruce M. Richardson, vice-president of market watcher AMR Research Inc. "It will be like *Alice in Wonderland*: 'Curiouser and curiouser.'"

UPGRADES GALORE. By summer, however, many large companies will be looking beyond Y2K. And the prognosis is good. All told, says International Data Corp. (IDC), the world market for packaged software should top \$154 billion. That's a gain of 14%, slightly ahead of growth in 1998.

In the sector of enterprise software—large packages that run corporate operations—AMR sees revenues growing 32% overall, to \$9 billion. Big database programs from Oracle, IBM, and Microsoft will get a boost from companies rushing into electronic commerce, says Bear, Stearns & Co. analyst Richard F. Scocoza. He figures Oracle Corp.'s sales will grow 24% over 1998, to \$9.9 billion.

Microsoft Corp. will account for a healthy chunk of the growth in packaged software, whatever the outcome of its legal battle with the Justice Dept. With several important upgrades in the pipeline, Microsoft should see a 26% increase in net profits, to \$7.4 billion, on a 22% leap in revenues, to

\$19.5 billion, according to Christopher Galvin, an analyst at investment banker Hambrecht & Quist LLC. In November, Microsoft launched SQL Server 7, its first relational database aimed at the largest corporate applications. This year it ships Office 2000, a successor to its wildly successful Office suite of business programs.

The most keenly awaited upgrade, however, may not materialize in 1999—and that's just as well. Microsoft's new operating system for office servers, formerly called Windows NT and now rechristened Windows 2000, is a powerful but complex system that will go head to head with Unix software running on Sun Microsystems Inc.'s servers. But with resources stretched thin by the millennium bug, few potential customers would relish taking on Windows 2000 before 2000, according to Gartner Group Inc.

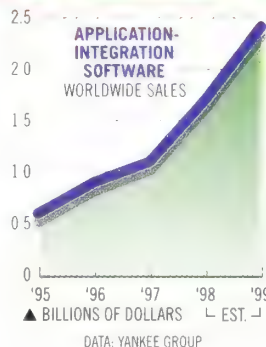
If Microsoft has its sights on enterprise applications—“back-office” programs dominated by SAP and PeopleSoft Inc.—it won't make headway in the new century, either. Lacking a strong contender in this category, Microsoft could choose to buy its way in. “But it would be a challenge to get a major acquisition past the Justice Dept.,” says H&Q's Galvin.

Elsewhere, however, the current market wave will gain force. Tasty targets include E*Trade Technologies, Manugistics, and SynQuest, which sell analytical programs that large companies use to forecast product demands and coordinate deliveries from suppliers. “Enterprise-software companies like SAP, which have only been making small acquisitions, may set their sights high in 1999,” says AMR's Richardson.

Also up for grabs will be the many companies that build tools and applications for commerce on the Internet. Forrester Research Inc. reckons that demand for E-commerce software will surge 163% in 1999, to \$6.7 billion. Software companies that don't already provide Web connectivity—regardless of the type of software they sell—will have to acquire the capability fast.

This goal is on everyone's mind—especially in the booming niche called “customer-interaction software.” These products help companies automate interactions between their customers and a help desk, call center, or other front-office

SPOTLIGHT



is. Each time a customer gets in with the company, such programs automatically collect information and add it to a database, which becomes a gold mine for anticipating customer needs and getting instant satisfaction.

A few years ago, top players such as Oracle, Remedy, and Siebel had just started to link hot-selling programs to the Internet. This year, they'll try harder, says Christopher Pavlic, an analyst at Abt Group Inc. He pegs the market for Web-based customer-contact software at 10 million—triple 1998's figure.

Internet is transforming the retail market for PC software in even more ways. "If you bought a computer a few years ago," explains Chris Le Tocq, Qwest's principal software analyst, "the experience was defined by software purchased in the store." Today, he says, you connect your PC to the Web and you may never need to purchase additional software. Instead of buying CD-ROMs, you subscribe to a Web site that lets you play games, compare mortgage rates, purchase stocks, or update your address book and calendar—all online.

EAT. In part because of competition from Webware, plus intense price-cutting at conventional outlets, retail sales of PC packages will climb just to \$5.3 billion, says Ann Stephens, president of market researcher PC Data. That relatively sluggish growth explains why Microsoft now sees its future in fast-evolving "subscription" models. The software giant is pumping \$200 million into its distance carrier Qwest Communications International Inc. so that together they can create a business managing and updating key applications for mobile devices—mail, database access, and portfolio management—all over the Net. Yahoo! Inc. is chasing the same model. The technology developed by Motorola's Starfish subsidiary, Yahoo! will let users synchronize data on office PCs and PCs, as well as on portable devices.

Two categories of software will get a big boost as the subscription market unfolds. The first is "cross-platform" software. Programs written with Sun's Java, for example, can run on almost any computer. IDC says this class of software will grow more than 100% in 1998, to about \$500 million.

The other category is known as application-integration software, or just "middleware." These programs were rebranded on the imaginations of techie males by creative ads featuring a lightly clad Katrina Garnett, CEO of CrossWorlds Software Inc. Middleware is aptly named. It ties together disparate functions within an enterprise, regardless of their physical locations. According to researcher

HELP! I NEED SOMEBODY

For software consultants, it doesn't get much better than this. Two mammoth tasks are rattling nearly every industry you can name. First, there's the scramble to hunt down and exterminate Year 2000 bugs. Second, businesses of all sizes are hitching their computer systems to the electronic-commerce boom. For both jobs, many companies feel compelled to find someone they can lean on.

And they're willing to shell out a lot for the support. Market researcher Dataquest Inc. says that U.S. spending on software-related consulting will soar to \$35.1 billion this year, up 18% from \$29.7 billion in 1998. Y2K will be the chief cause of the splurge. On average, major companies will hike spending by 15% to expunge the millennium bug, according to separate studies by GartnerGroup Inc. and Cap Gemini America. The lion's share of that increase will fatten the purses of outside consultants.

Further plumping the windfall, every big company is whipping hundreds of suppliers into shape. Smaller businesses don't have the luxury of waiting until optimum Y2K solutions have been found. Says John Parkinson, chief technology strategist at Ernst & Young: "It's no good having the bug eradicated if your trading partners don't."

As a result, Ernst & Young expects to grow 33% this year and add more than 1,000 staffers. IBM's consulting arm also anticipates a record year. "We're growing at least twice as fast as the rest of the industry," says General Manager Paul Lewis.

The 1999 consulting bonanza won't be just millennium money and E-commerce investments. The continuing wave of mergers is drumming up plenty of demand for help reconciling incompatible computer systems. There's also a steady revenue stream from companies need-

FOCUS CONSULTING

ing help with enterprise resource planning (ERP) software from the likes of SAP and PeopleSoft Inc. ERP

programs handle critical tasks such as order processing and production scheduling, and new users often fork over millions to make sure things go smoothly. For example, Texas Instruments will pay Andersen Consulting about \$200 million over five years to help manage its SAP project.

Many big companies that haven't launched an ERP program are postponing the job to avoid Y2K havoc. But consultants aren't complaining. They expect a hectic ERP scramble once the Y2K crisis has passed. That's the appeal of being a consultant, says Dennis Wayson, a Dataquest analyst—"they make money in good times and bad."

By Marcia Stepanek in New York

Yankee Group Inc., the application-integration market will jump 41% this year, to about \$2.4 billion.

Middleware contenders range from familiar suppliers such as NCR, IBM, and Fujitsu to CrossWorlds, TSI International, Neon Software, and BEA Systems. Despite BEA's yo-yo experience last fall on the stock market, CEO Coleman is confident that managers, unlike investors, won't be addled by the approaching millennium. So the middleware market could hit \$3.5 billion in 2000. But anything is possible when you pass through the looking glass.

By Neil Gross in New York, with Steve Hamm in San Mateo, Calif.

Y2K fear and E-commerce frenzy will fuel a corporate spending boom

TELECOMMUNICATIONS

P R O G N O S I S 1 9 9 9

INCLUDES CABLE AND OTHER COMMUNICATIONS SERVICES



POSITIVES

- Traffic will continue to grow rapidly because of lower costs and the boom in data transmission
- Deregulation is spreading around the globe, opening up opportunities for U.S. telecom companies abroad

NEGATIVES

- Tumbling prices of distance and wireless squeeze profits
- New foreign players in the U.S. market will increase competition, particularly for business customers

Remember all that talk of deregulating the U.S. telecom industry? The Telecommunications Act of 1996 was supposed to tear control of the industry from the regulator

and let freewheeling rivals go after each other with abandon. AT&T and a host of new competitors would burst into the local telephone markets, Baby Bells would finally get a chance to sell long-distance service, and cable companies would offer phone service. Consumers would end up with more choice, lower prices, and better service.

Forget about it. This will be the year of the regulator. The Federal Communications Commission and state regulators will play the central role in how telecom companies fare in 1999, as the competition envisioned by the Telecom Act remains more promise than reality. "Basically, nothing has happened for three years," says Robert Fox, vice-president at Mercer Management Consulting.

Regulators will have a hand in most of the key decisions to be made in the telecom industry over the next year. Take Ameritech Corp. The Chicago-based Bell wants to merge with SBC Communications Inc., but the deal is subject to approval by the FCC. Ameritech would like to offer long-distance service to its customers; again, the FCC will decide if that happens in 1999 or later. The company is hoping to build a national data network—and even considered buying IBM's Global Network, for which AT&T just ponied up \$5 billion—but it's barred from doing so by current regulations. Even Ameritech's plans to expand its security monitoring business may be limited by the FCC. "I think [regulators] are trying to pick winners and losers," says Richard C. Notebaert, Ameritech's chairman and CEO.

LOCAL NEWS. And they will, make no mistake about it. Phone companies now are jostling for position before a long race. Each carrier is trying to gain a slight edge by insisting on certain conditions that it finds favorable before the competition begins. The companies that prevail in this year's regulatory debates will have a strong shot at becoming the telecom titans of the 21st century.

Probably the most significant regulatory decisions of 1999 will be on the two proposed mergers between local phone companies. SBC Communications and Ameritech want to combine, they contend, because only together will they have the financial muscle to take on other giants such as AT&T and MCI

WorldCom. When the two local companies announced a \$62 billion merger proposal last May, they promised to offer local service in 30 markets outside their own territory. In July, Bell Atlantic Corp. and GTE Corp. announced plans to merge, also arguing that they needed to bulk up, though they made no specific promises about invading the turf of other local phone companies.

Much has been made of the fact that the FCC's staff is reluctant to approve the two megamergers—but don't bet the deals will be blocked. The FCC has much to gain if it approves of the deals to pry open local markets around the country. For example, the commission could insist that wholesale discounts at which competitors buy access to local phone companies' networks be increased from the current 18% or so to 40% or 50%. That would allow AT&T, MCI, WorldCom, and others to offer local residential service at competitive

prices without losing their shirts. "The FCC is going to push very hard on [the proposed mergers] to open up the local markets," says Fox.

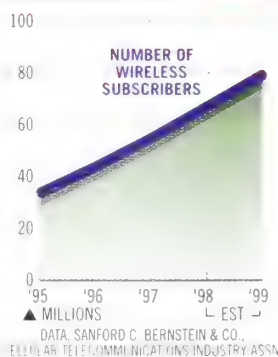
"DEAL-BREAKER." Of course, the local phone companies may push back. It was state regulators who determined the current wholesale discounts—and courts have repeatedly ruled that state, not federal, regulators are entitled to set these rates. Rather than agree to the FCC's demands, some analysts speculate Bell Atlantic, GTE, SBC, and Ameritech might simply call their deals off.

AT&T's fate is also inextricably linked to the FCC. The reason it proposed the \$48 billion merger with Tele-Communications Inc. is to use the cable company's network to

offer local phone service and high-speed Internet access to its residential customers. But now there's a catch. Ameritech Inc. wants regulators to require that AT&T-TCI carry AOL content. AT&T Chairman and CEO C. Michael Armstrong has said that condition would be "a deal-breaker." The FCC has generally supported the AT&T-TCI merger because it thinks that deal will bring competition to the local phone markets, and early betting is that AOL will lose out.

Even telecom's technological developments will be in the red tape in 1999. One of the most promising applica-

SPOTLIGHT



dustry is making voice calls over Internet using a technology called Internet Protocol, or IP. The companies sell IP-based long-distance service paying 3¢ to 4¢ a minute to the because data calls aren't subject to access fees levied on voice calls. That's Qwest Communications International, for example, to offer IP long distance at a rock-bottom 9¢ a minute. The loophole has the local phone companies up in arms. They think IP voice should be treated like any other traffic. BellSouth Corp. and U.S. Inc. have started charging access for IP calls even though regulators yet to set any. "We can identify a these companies, and we plan to em," says BellSouth CEO F. Duane. The FCC is leaning toward some kind of access fee on IP but Congress is strongly against it and of tax on the Internet.

TO COURT. The telecom players do best in the year ahead will be companies that can stay out of the regulatory quagmire and start the race for a full suite of integrated services to their customers. MCI WorldCom is a prime example. With its merger with Sprint, the company is starting to merge voice and data services over a network that's entirely its own. Besides its long-distance network, it has local facilities in 81 markets. That means it can be tangling with the Bells and offer services to its customers. "The costs are enormous," says Timothy F. president of MCI WorldCom's U.S. telecommunications subsidiary.

Look for wireless, another unregulated service, to continue to explode this year. With four, five, and even six carriers in many markets, prices are falling yearly—more, for high-end users. Carriers are kicking in a host of snazzy services, like voice dialing and E-911. And AT&T, Sprint Corp., and others offering free roaming and long distance with their wireless minutes. All those goodies should drive the number of U.S. subscribers up 18%, to 79 million, in 1999.

Satellite services should become more popular in 1999 as well. Iridium is marketing its service aggressively, and other players are expected to follow this year. The service is expensive: Iridium's handsets go for \$3,000, and talk time is \$3 a minute or more. Still, the phones can be used anywhere in the world, and their makers are betting that globe-trotters will find them indispensable. Iridium's performance will determine whether other satellite operators get off the ground. "The whole [satellite] industry is absolute-

THE LINE ON CABLE CALLING

The biggest barrier to competition in the \$100 billion local-calling market is that most U.S. homes have only one phone line—and most of those lines are owned by the Baby Bells or GTE. AT&T and other potential competitors are betting that they may be able to get around the Bells by offering phone service over cable systems. This is the year that "cable telephony" will either prove itself as a viable technology or become the latest example of overblown hype.

AT&T Chairman and CEO C. Michael Armstrong has the most on the line. He cut a \$48 billion deal to merge with cable provider Tele-Communications in order to offer local phone service to residential customers. It will cost another \$1.8 billion more to upgrade TCI's network so that it can handle the new service. If the deal is approved by regu-

lators, AT&T expects to introduce cable telephony before yearend.

If it works, cable telephony is likely to find a receptive audience. Cox Communications has been one of the most aggressive providers of phone service, rolling out its offering in five markets. The company says it has captured about 18% of the market in regions where it has

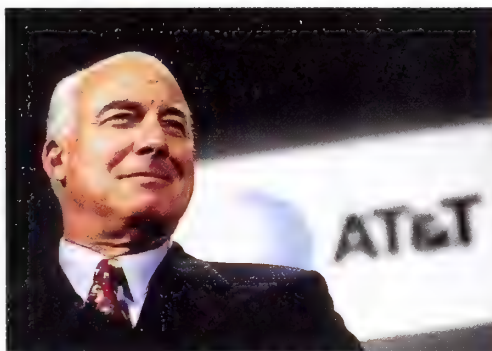
been operating longest, including Orange County, Calif. It helps that Cox's service is about 10% cheaper than U.S. West's in many

cases, but the company says that's not the only reason. "What [customers] really like is having a choice in their telecom provider," says Gregg Holmes, Cox's general manager in Phoenix.

Still, offering choice does not guarantee success. A key obstacle for cable telephony is reliability. Unlike the phone company, cable

operators typically use commercial electric power. That can make a big difference to customers. During Hurricane Georges, many people in Key West, Fla., lost their cable connections because their power was out—but they didn't lose their phone service from BellSouth. Armstrong had better pray there are no big storms in 1999.

TREND CABLE TELEPHONY



AT&T'S ARMSTRONG: A big deal with TCI

ly subject to the outcome at Iridium," says Lawrence Kenny, a partner at the consulting firm PriceWaterhouseCoopers.

And the telecom industry will be absolutely subject to the regulators in 1999—or the courts. Virtually every facet of the Telecom Reform Act has faced legal challenges from local or long-distance carriers. "Every decision can be challenged in every state and with every regulator," says Sir Peter Bonfield, CEO of British Telecommunications PLC, which has gone through a more successful deregulation in Britain. So when it comes to local and long-distance service, look for a little more competition and a lot more litigation in 1999.

By Peter Elstrom in New York

Those telecom players that can stay out of the regulatory quagmire will do best

MEDIA & ENTERTAINMENT

P R O G N O S I S 1 9 9 9

INCLUDES BOOKS, MAGAZINES, NEWSPAPERS, RADIO & TV BROADCASTING, AND MOVIES

OUTPUTBILLIONS OF
DOLLARS

98 AND '99 ARE ESTIMATES

EMPLOYMENT

MILLIONS OF WORKERS

**PRODUCTIVITY**THOUSANDS OF '98 DOLLARS
PER EMPLOYEE

DATA: DRI/MCGRAW-HILL

POSITIVES

► Broadcast networks could reverse earnings declines by owning more TV shows

► Sales of cable modems and set-top boxes will help increase cable-TV cash flow

NEGATIVES

► Increased Internet use will cut into television viewing, fragmenting market

► An economic slowdown will sap sales of film, video, and music in Asia and Latin America

It was hard to contain the optimism at the Western Cable Show in Anaheim, Calif., in early December. One after another, media moguls preened in the bright light of a digital future.

"The possibilities are so overwhelming," said NBC Chairman Robert C. Wright, "that the challenge is going to be to prioritize them." It fell to money manager Gordon Crawford, whose Capital Group Cos. owns stakes in a string of media giants, to bring the room back to earth. "I just hope no one is getting too complacent," he said, clicking off challenges that will include changing regulations in Washington, intense competition, and uncertain technologies.

Crawford's list of worries pretty much sums up 1999 for media and entertainment companies. After several overhyped false starts, the Digital Age has arrived with the first rollouts of cable modems and high-definition TV. But the race to put digital media into America's homes has also brought an army of competitors that will slash revenues for the traditional powers and further divide an advertising pie that is likely to grow less in 1999 than at any time in the past five years. And there is nearly as much uncertainty as promise, especially in Washington, where Congress will consider extending rate regulation and requiring cable operators to carry thousands of new, digitally created channels that broadcasters will soon have at their disposal.

Much of the attention this year will be centered on cable. By spring, AT&T is expected to close its \$48 billion takeover of cable giant Tele-Communications Inc. and gain the "last mile" connection to homeowners—superfast fiber and coaxial cable over which it can sell online access and Internet phone service. AT&T is also negotiating with other cable companies, including Time Warner and MediaOne Group, for access to their lines. It may even make another bid to buy a cable operator. One potential acquisition target is Comcast Corp., says NationsBanc Montgomery Securities Inc. analyst John Tinker.

The long-awaited convergence of TV and the Internet isn't expected to become a widespread phenomenon until 2000 at least. Still, as many as 5 million cable subscribers this year will likely sign up for high-speed cable modems that will give them access to the Internet, predicts New York investment banker Veronis, Suhler & Associates. That should translate to \$432 million in added revenues for cable companies.

Convergence may also bring about the merger of cable's

two major online services: TCI-backed @Home and the Runner/MediaOne joint venture backed by Time Warner, MediaOne, Microsoft, and Compaq. America Online Inc. also cut a series of deals to use cable wires to provide high-speed access to its own service, says Salomon Smith Barney's Lanny Baker.

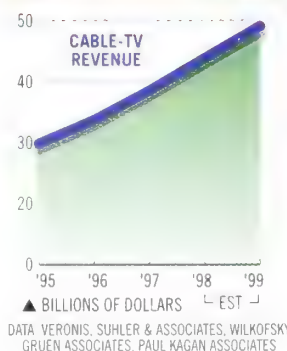
DISH WARS. Cable will need the new services to offset a slowdown in new customer traffic. After averaging 3.4% growth the last five years, cable subscriber growth in 1999 will slow to 1.8%, or 66.6 million homes, projects Veronis Suhler & Associates. Worried that Congress or the Federal Communications Commission might reimpose rate regulations when premium-channel curbs expire on Mar. 31, aren't likely to please consumers with the same major increases many levied in 1996. "We would make a serious mistake to go down that road again," admits TCI President Leo J. Hindery Jr.

Cable will have to weather a renewed assault from those customers in 1999 from small satellite-TV companies. Direct-broadcast satellite operators increased their subscriptions a robust 39% in 1998, to 8.9 million, according to the Carmel Group. The industry will add 1 million subscribers in 1999, the Carmel Group-based media analysts predict. To gain more subscribers in a hurry, both DirectTV Inc. and EchoStar Communications Corp. are expected to bid for the 2.3 million customers owned by faltering PrimeStar Inc., which is backed by a cable consortium.

The most worrisome sector of the industry remains the nation's broadcast networks. Their ratings are likely to slide as viewers continue to migrate to cable.

In 1998, ratings for the four largest networks fell down by 8%, with only Fox showing a modest improvement. That means ad revenues in 1999 will increase only \$14.5 billion, forecasts McCann-Erickson Vice-President Forecasting Robert J. Coen, after a 7% gain in 1998. In contrast, cable channels will see a 12% hike in ad revenue, says Coen, to \$6.9 billion.

The result is that network earnings this year will be slashed. ABC, for example, will show a \$150 million loss in 1999, says Salomon Smith Barney analyst Jill S. Krutick. The Walt Disney

SPOTLIGHT

mit earned \$100 million in 1998. e networks' gambit will be to emze cheaper news programs, such as second weekly episode of *60 Min-*. Most networks will try to own the s they air and seek diversification nternet companies.

t the networks' biggest relief could from Washington, which is contemg forcing cable operators to carry etworks' digital channels. With six l channels in place of the current analog channel, the networks could ate new revenues by using the els for new programs, for repeats, selling products over the air. Withaiting for Washington, Time Warn- ently agreed to carry CBS's digital els for free. But other cable opera- and networks are battling over ier cable should pay the networks the new channels.

least one network is likely to e hands in 1999. NBC, which nego- in early 1998 to merge with Barry s USA Networks Inc., is looking for er partner. It is again likely to talk Diller and his 46%-owned Seagram hich owns Universal Studios Inc. parent General Electric Co. may pin off the network to the public. ile more viewers are tuning out orks, they're logging onto the Net. 99, 43.9 million American house- will be able to go online, roughly of the country, says forecaster r Communications. That will help online-shopping revenues by 69%, to billion, says Jupiter, while adver- revenues will increase by 62%, to illion. "Truth is, this is an area that wing faster than any of us can be- right now," says Diller. "I'm not e know how big it can be."

■ CRAZY. The jury is still out as to er Internet usage diminishes in- in more traditional media. U.S. newspaper circulation will hold y at roughly 58.4 million, says media

mist Arthur Gruen, president of Wilkofsky Gruen As- es, thanks to the aging population—the over-40 crowd to read more. Still, a general slowdown in retail mar- will likely limit local advertising to a 4.5% growth rate in or \$40.6 billion, down from a 6% increase in 1998. e thing that isn't slowing down is the box office. In Hollywood sold a record \$7 billion in movie tickets, ahead of 1997. And with such low-budget blockbusters as *There's Something About Mary* and Walt Disney's *The boy*, profitability is also up. In 1999, the big winner will st certainly be George Lucas' hotly anticipated *Star* prequel, due out on May 21, says Paul Dergarabedian,

THE EMPIRES STRIKE BACK

It isn't *Seinfeld*. But CBS has a hit in *Everybody Loves Raymond* in more ways than one. The network stands to clear nearly \$100 million from its Monday night hit. That's because, in addition to airing the 14th-ranked TV show, it owns a one-third interest in the sitcom starring former stand-up comic Ray Romano.

With network ratings in free fall, the Big Four are hustling to own pieces of the programs that show up on their schedule. Even a modest hit can mean added revenues by airing on cable, while a hit can mean a rerun bonanza. So NBC, for example, produces its Friday night police drama *Homicide: Life on the Street*, while ABC has a stake in *Sports Night* and Fox Broadcasting in *Ally McBeal*.

Getting Hollywood to share a steady source of revenue isn't easy. In 1998, the studios that created the most programming turned off the spigot to NBC, refusing to supply shows to the General Electric unit after it demanded a financial stake in any show it aired. But getting on the network still means larger audiences for the shows, so NBC will likely ask for a



LOVING RAYMOND: CBS has a one-third interest

smaller piece of the action. CBS already has at least some interest in half its shows.

Those stakes will be even more important as networks use the programming to feed new cable channels they're starting. Fox aired its show *The X-Files* on its FX channel last year. But that also makes networks liable for the

inevitable flops. NBC was a partner in the canceled drama *Wind on Water* and Fox in the short-lived sitcom *Get- ting Personal*. Worse yet, you

can find yourself embroiled in controversy: Walt Disney's relationship with *Home Improvement* producer Wind Dancer Productions has been rocky since Wind Dancer sued, claiming Disney's ABC unit didn't pay fair-market value for the hit show. In 1999, the biggest show in town may be the fight between networks and producers.

FOCUS NETWORK PROGRAMMING

president of box-office analysts Exhibitor Relations Co.

Star Wars won't be the only familiar territory. Among the expected hits are remakes of TV shows like Warner Bros.' *The Wild Wild West*, with Will Smith and Kevin Kline, and MGM's *The Mod Squad*. Among the tried-and-true formulas will be the latest James Bond flick and Tom Cruise in *Mission: Impossible 2* from Paramount Pictures Corp.

Like Cruise, the media industry seems eager to accept its next mission: getting couch potatoes to ante up for a building wave of Digital Age products. The big show may be in 2000, but the curtain is already rising.

By Ronald Grover in Los Angeles

Networks will produce cheaper programs, own more shows, and increase Net presence



Is it possible to
give the
performance
of a lifetime
every single day?

When running a department, there are no rehearsals. Which is why you need a server that delivers an unforgettable performance daily. Designed with our Highly Parallel Systems Architecture and dual Pentium processors, the new Compaq ProLiant 3000 has all the power you need. And the unmatched availability to handle today's demanding departmental applications. To see how it outperforms its competition and performs under budget, contact www.compaq.com/server8/performance or 1-800-AT-COMPAQ.



COMPAQ Better answers.

LIFE SCIENCES



DRUGS AND BIOTECH The big drugmakers garner few of their sales in Asia, so they've barely been hit by the region's crisis. Add hot new products, price hikes, and the negligible impact of managed care's pressure to rein in costs, and you have the makings of another record year. "It just doesn't get any better than this," says one analyst. *Output* for 1999: +3.8%*

104

AGRICULTURE The downside of market-based prices is finally hitting the American farmer. First came weak demand, then came strong supply. The crisis in Asia has hurt every sector but dairy, and livestock producers are faring even worse than grain farmers. *Output* for 1999: +2.07%*

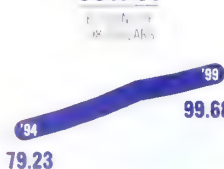
HEALTH CARE After a three-year drought, managed care may finally make decent money in 1999. Premiums are up, and while drug-price hikes will persist, insurers are holding the line on outlays to physicians and hospitals. Size still matters—and consolidation will continue. *Revenue for 1999: +3.29%*

108

DRUGS & BIOTECH

P R O G N O S I S 1 9 9 9

OUTPUT

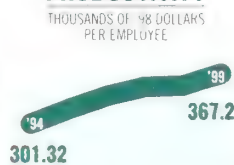


AND '99 ARE ESTIMATES

EMPLOYMENT



PRODUCTIVITY



DATA: DR/MCRAW HILL

POSITIVES

- Sales growth will remain strong thanks to new, often expensive, products
- Rapid innovation, spurred by new technology, is accelerating development of new drugs

NEGATIVES

- Managed care is looking for ways to trim soaring prescription-drug costs
- Better drug development means that novel drugs face "me-too" competitors in the marketplace sooner than ever

Looking at the performance of the pharmaceutical industry in 1998, you might forget it was a year of global financial panic. Because most of the world's huge drug companies

garner about 11% of their sales from Asia, the industry has remained largely insulated from the region's economic woes. And the stars are likely to be aligned for another record year in 1999. Industry laboratories continue to churn out hot new products, pricing has strengthened, and managed care's attempts to rein in soaring drug costs has had little impact. "It just doesn't get any better than this," says SG Cowen analyst Stephen M. Scala.

How good is 1999 likely to be? Scala figures sales of the top 10 U.S. and British pharmaceutical players will increase 13% in 1999, to \$150 billion, topping a 9% climb last year. The biggest drivers of that growth are popular—and usually expensive—new drugs. Continuing to ramp up will be the blockbuster launched in recent years, including cholesterol-lowering drug Lipitor from Warner-Lambert Co. and Eli Lilly & Co.'s Zyprexa for schizophrenia. The most eagerly awaited launches in 1999 will be two painkillers targeted at arthritis sufferers: the Cox-2 inhibitors Celebrex from Monsanto Co. and Vioxx from Merck & Co. And SmithKline Beecham is expected to roll out Avandia, a treatment for adult-onset diabetes. That product, which will compete with Warner-Lambert's successful Rezulin and is critical to SmithKline's future growth, could generate more than \$700 million in sales in 2002, analysts estimate.

SLOW CREEP. Then there are price hikes. While recent price increases are still much lower than the markups of the late 1980s, they still rose by 3.4% in the third quarter of 1998, vs. 2.9% during the same period in 1997, estimates market researcher IMS Health Inc. in Plymouth Meeting, Penn. Contributing to the uptick are sharp increases in the prices of some generic products—a sector that more typically sees steady cuts. Rising prices are "slowly creeping back into the system," says HSBC Securities Inc. analyst Jack Lamberton.

The higher cost of medicine is gaining the industry the enmity of a powerful interest group: managed-care operators. HMOs and other health-care insurers have seen their prescription-drug costs soar in recent years, largely because of increased volumes and the popularity of expensive new thera-

pies. That's triggering renewed efforts to trim the drug bill where possible. In January, for example, Tufts HealthPlan will stop reimbursing for certain popular—and profitable—drugs, including Merck's hypertension drug Vasotec and cholesterol reducer Zocor, encouraging patients to use similar but less expensive alternatives. Despite such moves, however, most pharmaceutical executives think it is unlikely that managed care will be able to restrict access to new drugs significantly. "At the end of the day," says Karen L. Bouslog, president of Pfizer Inc.'s U.S. Pharmaceuticals, "these products offer such value and benefit that it will be very hard to keep them away from people."

Even if managed care's efforts don't dampen the drug industry's hot performance, there is another potential threat: the federal government. A debate is likely to start next year over whether Medicare should pay directly for prescription

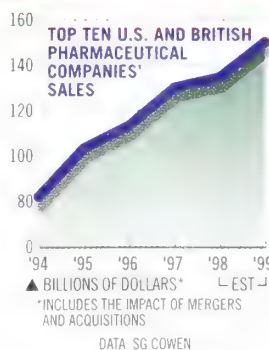
benefits. Norman M. Fidel, a health-care analyst at Alliance Capital Management, warns that while such a change would increase the demand for prescription drugs, it would also force the federal government to take a more direct role in the pricing of those medicines. "That would be a real negative," says Fidel, who thinks that legislation on the issue in 1999 is a long way off.

It would also be a real change. The pharmaceutical market has long been free of the sort of price restrictions found in Europe, where governments are the largest customer and frequently set prices. C. Anthony Butler, an analyst at Lehman Brothers Inc., points out that the spate of recent deals—including \$34.6 billion Astra-Zeneca Group PLC deal and the planned consolidation of Hoechst

Rhône-Poulenc's drug and agrochemical businesses, with \$1 billion in sales—have involved European players with relatively weak positions in North America. With the U.S.'s unruffled pricing and higher margins, many big American companies have enjoyed greater returns and, as a result, have felt pressure to merge. But as those midsize European companies pair up, Lehman Brothers Vice-Chairman Frederick I. Ives figures the pressure builds on others. "Those deals raise the question as to what is competitive mass," he contends.

So look for 1999 to likely hold more dealmaking in the

SPOTLIGHT



ss. Stephen S. Tang, national di-
for the health-care industry prac-
; A.T. Kearney Inc., figures some
e companies, including Bayer, Phar-
& Upjohn, and Schering-Plough,
ok to find partners in the coming
thers say it wouldn't be surprising
American Home Products Corp.—
saw potential deals with Smith-
and Monsanto fall apart—go on
owl again. And there is always the
ility of a resumption of the merger
sions between Glaxo Wellcome PLC
mithKline. But Tang doesn't ex-
ne major U.S. players to rush into
als anytime soon. "They have dou-
git growth across the board," says
"The incentive clearly isn't there."
re is one glitch threatening that
h outlook, though—the looming
of patent expirations. SG Cowen's
figures that from 1999 through
drugs that generated \$14 billion in
sales in 1997, including Schering-
r's Claritin and Astra Pharmaceu-
-Prilosec, will go off patent. That
trigger the rollout of cheaper
e versions of those drugs that could
y erode the branded product's mar-
are.

REPRIEVE. Big Pharma compa-
ren't going to take that hit without
... Drugmakers will likely try to tie
neric competitors in court while
search for ways to protect their
ise. Lilly, for example, will be fight-
challenge from Barr Laboratories
patent on the blockbuster antide-
ment Prozac next year. At the same
he company has struck a deal with
Massachusetts drugmaker Sepra-
c. to develop a newer, purified ver-
f Prozac. That version may have
benefits over the original—including
ially fewer bad interactions with
drugs—but the big payoff for Lilly
the new Prozac could enjoy patent
tion as far out as 2015.

the biotech industry, 1999 will be
when the promise of that sector comes closer to real-
number of new biotech products will be ramping up, in-
g Enbrel, the potential blockbuster rheumatoid arthri-
g from Immunex Corp. that hit the market in late
Salomon Smith Barney analyst Meirav Chovav figures
he drug, which will be co-marketed by American Home
cts, could generate sales of \$900 million in 2001. This
will also mark the first full year of sales for Herceptin,
novative breast-cancer drug from Genentech Inc. that
approved in September and is estimated to bring in
million in revenues in 2000, and the expected approval
aunch of a new AIDS protease inhibitor from Vertex

BATTLING BLOCKBUSTERS

Get ready for a clash of
the titans. Monsanto's Searle
division, with the help of
marketing powerhouse Pfiz-
er, is on track to launch
its new painkiller, Cele-
brex, in early 1999. Merck
is expected to follow with
its own product, Vioxx, in
the second half of the
year. With both sides
expected to add hundreds
of sales representatives for
the drugs, a massive pro-
motional blitz will erupt as
each tries to snag a piece of the \$6
billion market for arthritis relief.

The drugs—the most anticipated
pharmaceutical-product launches of
1999—are part of a new class called
Cox-2 inhibitors. They are meant to
provide the same pain relief as non-
steroidal anti-inflammatory drugs
(NSAIDs) such as ibuprofen and
aspirin but without the
sometimes serious stomach
side effects.

Regular (NSAIDs) work by
blocking the action of two enzymes,
Cox-2, which is believed to have a pri-
mary role in pain and inflammation,
and Cox-1, which is thought to help
maintain the lining of the stomach.
The Cox-2 drugs inhibit only the pain-
causing enzyme, thus avoiding ulcers
and other stomach complications that
can develop when the stomach enzyme
is blocked.



STOMACH SAVER:
First Cox-2 drug

But don't look for the Food
& Drug Administration to
back those claims without
some tough scrutiny. In
fact, Monsanto and Pfizer
have already run into
skepticism. Although clin-
ical trials showed that
Celebrex was linked to
many fewer stomach side
effects than regu-
lar (NSAIDs), an
FDA panel thinks
the drug should still carry a
warning, albeit a much less

onerous one than is carried by
(NSAIDs). The panel indicated that
Monsanto should do follow-up studies
to prove that the warning should be
removed completely. The FDA has not
ruled yet, but it usually follows the
advice of its expert panels.

Merck recently filed with the FDA for
approval of its entry, Vioxx. The drug's
success will be critical to
Merck, which is facing patent
expirations on a number of
important drugs in 2000 and
2001. The betting on Wall Street is
that Merck may have the data to win
an even less stringent warning than
Monsanto is likely to receive. "Merck
does extremely strong clinical trials,"
says Lehman Brothers analyst C.
Anthony Butler. If that's the case with
Vioxx, Merck will have an additional
weapon in its high-stakes battle with
Pfizer and Monsanto.

FOCUS PAIN DRUGS

Pharmaceuticals Inc. that could generate sales as high as
\$250 million in 2000.

Biotech profits as well as sales will likely get a boost this
year. Samuel D. Isaly, a partner at biotech research firm
OrbiMed Advisors, figures that 21 biotech companies will be
in the black this year, generating \$2 billion in net profits, up
from \$1.5 billion in 1998. "It's harvest time in biotech," says
Isaly. Unless managed care really bites back, biotechnology
companies and big drugmakers will find 1999 to be a healthy
year indeed.

*By Amy Barrett in Philadelphia, with
Ellen Licking in New York*

**If Medicare starts paying directly for drugs,
the feds will have more say on pricing**

AGRICULTURE

P R O G N O S I S 1 9 9 9



POSITIVES

- Grain prices have already recovered a little from lows in early September
- The federal government is distributing \$6 billion in aid for farmers and accelerating subsidy payouts

NEGATIVES

- World demand and exports were down last year and will likely fall further in 1999
- The rest of the world is getting better at producing food, and that will hurt prices long-term

Normally, Ron McCartney would be ecstatic about the bumper crop of corn he harvested last fall. But now, it's looking like a mixed blessing. That large crop, along with severe

depressed corn prices, has forced him to rent expensive storage space in a silica sand mine 30 miles from his 1,700-acre farm in northeast Iowa. "I hate doing this," says McCartney. "They've taken advantage of the situation and raised rates."

He's not alone. The situation for most of the farm sector is dismal. The three major U.S. cash crops—corn, soybeans, and wheat—were down 27%, 13%, and 29%, respectively, through Dec. 21. Thousands of farmers are holding on to their crops, hoping to sell them at better prices later this year.

Welcome to free-market agriculture. Two years after the passage of the 1996 Farm Bill, which phases out federal subsidies for farm prices, American farmers are experiencing the downside of market-based prices. Half the problem is weak demand. Other than the dairy industry, which sells virtually all of its milk and butterfat domestically, every agricultural sector has been hurt by the crisis in Asia. The Agriculture Dept. estimates that farm exports dropped by 6%, to \$54 billion, in 1998 and will fall this year to \$50 billion.

The second part of the problem is increased supply. "Competitors have been producing good-to-record crops," explains economist Terry Franel of the American Farm Bureau Federation. For all the dire predictions about El Niño, big agricultural producers such as Brazil, Argentina, and Australia hauled in bumper crops of soybeans and wheat last year, as did the U.S. And with better use of technology and farming techniques, the rest of the world will likely continue to improve production.

WHERE'S THE BEEF? Livestock producers fared even worse than grain farmers last year. While exports make up a smaller proportion of animal production, cattle and hog herds are still too large for the domestic market. Despite three years of downsizing the beef herd, cattle prices are off 20% since the beginning of 1998. Any improvement will likely be muted by the glut of hogs currently on the mar-

ket, as consumers substitute cheaper pork for beef. With hog prices at 50-year lows, the industry is a basket case.

Weak demand, strong supply: The combo adds up to a poor outlook for most of the U.S. agricultural sector. Even the \$6 billion aid package passed by an election-year Congress was some help. U.S. farm incomes fell an estimated 3.6% to \$48 billion, in 1998. "The best thing farmers can hope for is bad weather elsewhere," says Michael Singer, agricultural economist for the Federal Reserve Bank of Chicago.

The only other thing that would improve prices is the kind of significant shock to global grain supplies. Other farmers such as Ron McCartney could be selling their harvest into an even weaker market this year.

By Andrew Osterland in Chicago

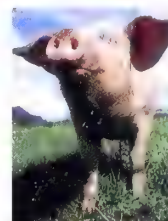
THE PORK INDUSTRY GETS ROASTED

It has been a difficult year for most U.S. farmers—but it has been a disaster for hog producers. "This is beyond tough," says Charles K. Levitt, senior livestock analyst for Alaron Trading. "This is tragedy, despair, and panic all rolled into one."

For the first time since the 1940s, live hog prices have fallen below \$10 per 100 pounds—nearly a 75% drop in the last 12 months. With an industry average production cost of over \$35 per 100 pounds, Levitt expects thousands of producers to go belly-up in the next six months.

The pork industry is undergoing

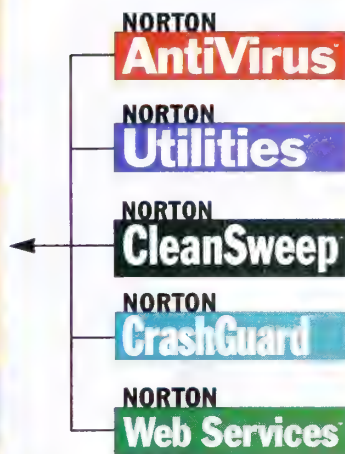
FOCUS HOGS



NO LUAV

the same transformation the poultry business went through in the 1980s, with big producers such as Murphy Farms and Premium Standard Farms building giant, low-cost hog factories in a war for market share. But demand hasn't kept pace with the expansion in capacity. Export markets, predominantly Asian, have stalled, and packers and retailers have only recently begun to lower pork prices for domestic consumers.

Lower retail prices may spur some new demand from health-conscious U.S. consumers. But with supplies expected to grow further, 1999 looks like a hog hell.



One Suite Way to Gear Up for Top Performance.

Introducing Norton SystemWorks™. Complete versions of the latest award-winning utilities for Windows® 95 and Windows® 98 from Symantec™ Corporation – now available for the first time ever in a single integrated suite. Geared to work together, they eliminate the confusion of choosing from all the different utilities on the shelf. Just shift up to Norton SystemWorks and you have everything you need.

The smartest way to keep your computer working. Norton SystemWorks protects, maintains, fixes and fine-tunes your system. Easily customized, you can choose whether you want Norton SystemWorks to run automatically in the background, or personalize it to suit the way you prefer to manage and maintain your system.

An incredible value. Along with complete versions of five award-winning utilities, Norton SystemWorks features a FREE Bonus Pack that includes Norton Mobile Essentials™, Visual Page™, WinFax™ Basic Edition, and pcANYWHERE™ Express. \$500 worth of software for just \$69.95!*

More than 30 million customers have relied on Norton products to protect their computers. And at this price, shouldn't you?

Gear up for top performance. Go to your local reseller to get five award-winning utilities plus a FREE bonus pack for one amazing price – just \$69.95!

*Manufacturer's suggested retail price.

SYMANTEC.

Symantec, the Symantec logo, Norton AntiVirus, Norton Utilities, pcANYWHERE, and WinFax are registered U.S. trademarks of Symantec Corporation. Norton, Norton SystemWorks, Norton CrashGuard, Norton Web Services, Norton Mobile Essentials, Norton CleanSweep, and Symantec Visual Page are trademarks of Symantec Corporation. Windows, and the Windows logo are registered trademarks of Microsoft Corporation. All other brand names or trademarks are the property of their respective owners. © 1998 Symantec Corporation. All rights reserved.

HEALTH CARE

P R O G N O S I S 1 9 9 9



POSITIVES

- Insurers will win higher premium increases, especially from smaller customers
- Demographics and managed-care pressures favor nursing homes, assisted-living centers

NEGATIVE

- Medicare cutbacks continue to eat into revenue growth throughout the industry
- Giant physician-management companies haven't found a viable formula

Can managed care finally make some decent money in 1999? After a three-year profit drought, indications are promising. Most health-maintenance organizations are holding the li-

on medical costs. They've pulled out of Medicare in weaker markets. And they're winning more than nominal commercial premium increases—almost unthinkable in recent years.

Operating margins remain thin, typically 4% or less, and HMO stock multiples won't nearly approach their levels of 1995. Still, Wall Street expects net profit increases of 15% to 20% this year from all the giants—Aetna, Humana, Pacificare Health Systems, Wellpoint Health Networks, and United HealthCare.

Such relative bounty is made possible by the emergence of long-absent pricing discipline. Nationwide, insurers' premium increases to large employers should average 5% to 7% this year, up from 3% for 1998. Some, such as Indianapolis-based Anthem Insurance Cos., say they've won average hikes of 10% or higher. Increases are even steeper in the small-group market.

At the same time, HMOs are keeping costs down. Although double-digit increases in pharmaceutical expenses will persist, insurers will perhaps pay physicians only 4% more than in 1998. Many hospitals will get even smaller hikes. "It's going to remain difficult for us to generate anything in the way of significant price increases," says Eric R. Wagner, vice-president at Helix/Medlantic Healthcare Group, a newly merged combine of seven hospitals around Washington.

PULLING OUT. Hospitals will win modest relief from Medicare. The federal program, which typically accounts for 40% of hospital revenue, will grant a 0.5% rate increase after holding pay flat in 1998. HMOs, too, should see healthier returns from their Medicare operations—mostly because they've withdrawn from markets where pricing caps and regulations made their operations untenable.

The dominant industry dynamic, however, remains consolidation. Aetna Inc.'s Dec. 10 announcement that it would pay \$1 billion for Prudential Insurance Co.'s massive and mediocre health business

raised the ante, as insurers, hospitals, and doctors race to leadership in local markets. "We're still acquiring. The ground rules are the same," says Alan B. Miller, CEO of United Health Services Inc., the third-largest hospital operator.

Rule No. 1: Size truly matters. The continuing arms race, though, concerns some health executives and analysts. But insurers, hospitals, and physician groups, they note, don't necessarily serve patients better. And heightened competition could make this year's profits an anomaly. "I don't think health care is a high-margin business," says Francis Crosson, executive director of Kaiser Permanente Federal Center, part of the big not-for-profit Kaiser HMO. "I don't think the country wants it to be."

By Keith H. Hammonds in New York

ADJUSTING THE PRESCRIPTION

It seemed like a good idea: Physician practice-management firms (PPMs) would buy or manage thousands of doctors' operations, gaining vast efficiencies and negotiating muscle to fight health-maintenance organizations (HMOs).

But the PPM model proved fatally flawed. The industry leaders did manage to affiliate with 40,000 physician practices by this year. But after massive losses, MedPartners said in November that it would quit to focus on its pharmacy unit. Its biggest rival, Phycor, took a \$93 million charge and said it might go private. Smaller PPMs have also foundered.

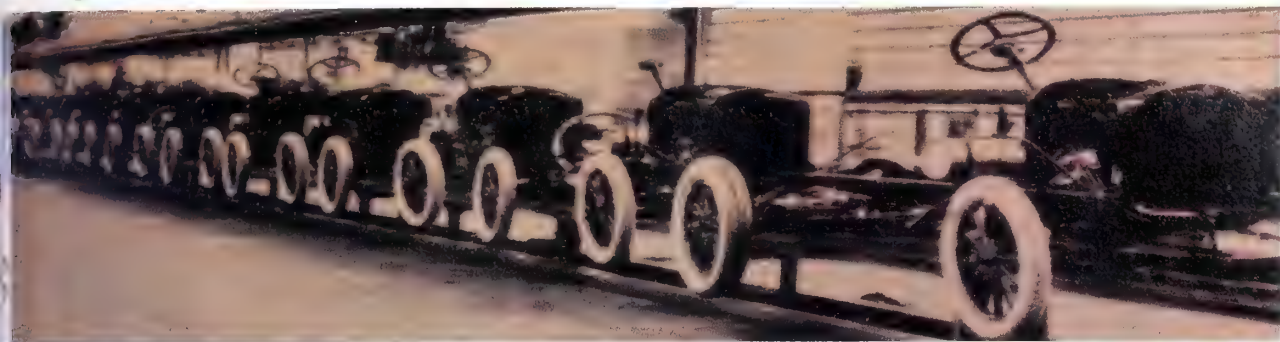
PPMs crashed, in part, because they lacked the actuarial expertise to

predict medical costs. More important, doctors didn't react well to becoming employees—especially at remote national companies. MedPartners and Phycor proved adept consolidators, but they couldn't efficiently manage operations.

Yet physicians remain a mostly fragmented bunch with an economic imperative to agglomerate. Some analysts, such as Morgan Stanley's Todd Richter, think Phycor will emerge as a vital force. Others think PPMs will return in changed forms. "The PPM industry is not dead," says Mitchell Blatt, executive partner at Chase Capital Partners. "Sometime in the next 6 to 24 months, we'll see some reinvention."

TREND
PHYSICIAN
PRACTICES

Henry Ford dreamed of "making the desirable affordable."



Obviously, it's a recurring dream. Introducing the \$17,995* Ford Taurus.

Innovation helps lower costs, for us and for you. That's why the lowest price ever

for today's Taurus is \$1000 less than last year for the same equipment.** And that same spirit of innovation

has made Ford Taurus **the only car in its class to earn a five-star ★★★★★**

government front crash test rating!† More affordable. More desirable. Designed for safety.

could be the car Henry Ford dreamed of.

Ford Taurus

*Second Generation airbags!†† 3.0-liter V-6.
Power windows. Air conditioning. All standard.*



1-800-258-FORD or
www.fordvehicles.com

*Taurus LX MSRP. Tax, title extra. **Based on MSRP of '98 Taurus LX vs. MSRP of '99 Taurus LX. †Driver and passenger front crash test. Government data only for comparing vehicles within 500 pounds. Class is medium cars starting under \$20,000. ††Always wear your safety belt and secure children in the rear seat.

IT'S A DONE DEAL!

**Pennzoil Company has restructured
into two separately traded companies**



NYSE:PZE

PENNZENERGY
C O M P A N Y

- Top 10 domestic independent oil and gas company
- Over 400 million barrels of oil reserves
- Annual production of nearly 50 million barrels of oil
- Substantial and growing international presence

NYSE:PZL

PENNZOIL-QUAKER STATE
C O M P A N Y

- Pennzoil and Quaker-State have merged
- Over 1,300 branded products
- Leading brands in every car care category
- #1 fast oil change provider

www.pennzoil-quakerstate.com
www.pennzenergy.com

For Investment Information
(713) 546-4000

MANUFACTURING



AUTOS Low interest rates, rising wages, and plenty of jobs will keep showrooms fairly crowded. But Detroit will have to offer ever-larger rebates—and even that won't get sales to match last year's record figures.

Output for 1999: +3.9%*

112

4 AEROSPACE With defense spending rising, revenues are at an all-time high. Fewer companies will share the bounty, however, as merger mania continues in the U.S. and abroad, signaling tougher competition.

Output for 1999: +2.01%*

METALS Last year's flood of imported steel seems to be subsiding, but that doesn't mean domestic producers can rest easy. Look for more mergers—and more lobbying efforts to erect stronger antidumping barriers.

Output for 1999: -2.5%*

116

18 ENERGY Crude-oil prices are in the cellar and likely to stay there as economic woes in Russia and Asia, a global oil glut, and balmy weather rock the industry. Cost-cutting and mergers should keep on coming.

Output for 1999: -0.59%*

Photo: M. J. Smith

AUTOS

P R O G N O S I S 1 9 9 9

OUTPUT

BILLIONS OF '98 DOLLARS



EMPLOYMENT

MILLIONS OF WORKERS



PRODUCTIVITY

THOUSANDS OF '98 DOLLARS PER EMPLOYEE



'98 AND '99 ARE ESTIMATES

DATA: DRI/MCGRAW-HILL

POSITIVES

- Sales of sport-utility vehicles, minivans, and pickup trucks continue to roar and could outpace passenger car sales in 1999
- New leadership at General Motors and Ford is reinvigorating Detroit

NEGATIVES

- Sales of passenger cars continue to lag, despite rebates
- Japanese auto makers have set their sights on Detroit's truck dominance with new models like Toyota Tundra pickup

No one is expecting the wheels to fall off car sales this year. But auto executives who are usually buoyant are coming to terms with a dim prospect: Their best days are behind

them. "I'm worried," confides an anxious Richard B. Colliver, executive vice-president of American Honda Motor Co. "I've seen showroom traffic slow down. People are concerned about the market."

Such pessimism was hard to find in the go-go sales reports of 1998, when car and light-truck sales in the U.S. topped 15.5 million, the best year of the decade. But auto executives acknowledge that global economic malaise and wavering consumer confidence will finally put the brakes to the car business this year. "It will be weaker," admits Ford Chief Executive Jacques A. Nasser. He quickly adds: "But we're still forecasting industry sales that begin with a 1 and a 5."

Indeed, 15 million cars and light trucks is this year's sales consensus among industry analysts. Low interest rates, a robust job market, and rising wages will keep autos rolling out of showrooms.

That lofty sales level is going to cost, though. Detroit may lay out the biggest rebates since the last recession. J. D. Power & Associates Chief Economist Paul Ballew estimates that auto makers spent an average of \$1,200 per vehicle on incentives at the end of 1998, up \$100 from 1997. And this year, the industry may slap on an additional \$100 to \$125 per vehicle to prop up sales. The rebates will drive down the average purchase price by 1%, to \$22,750, predicts Ballew. "We'll see incentive wars in '99," he says. "We'll have phenomenally high incentives."

BEETLEMANIA. Even once rebate-proof light trucks are showing weakness. DaimlerChrysler has \$1,000 rebates on its minivans, Ford Motor Co. is offering cut-rate financing on the Ford Explorer, and General Motors Corp. is discounting its sport-utility vehicles by \$1,000 to \$3,500. And with 900,000 SUVs coming off lease in 1999, good deals on slightly used wheels will abound, putting pressure on new models. The fat SUV profit margins that have been stuffing Detroit's pockets will plunge nearly 20% over the next two years, to an average of \$6,500 per vehicle, predicts Merrill Lynch & Co. auto analyst Nicholas Lobaccaro.

Still, the truck juggernaut seems unstoppable this year. Sales of minivans, sport-utilities, and pickup trucks grabbed

more than half of the U.S. auto market for the first time in November, 1998—and they could hold a slim majority all of 1999, analysts predict. Good thing, too, because traditional passenger cars remain money losers. With Detroiting on the rebates to move the metal, the average purchase price of a passenger car will fall 2% this year, to \$20,580, predicts Ballew.

U.S. cars are getting hurt by more than just the popularity of trucks. Overseas rivals are simply doing a better job of satisfying customers. "The Europeans are selling everything they can build, but Detroit is struggling," says Wesley Brown, auto consultant at Nextrend Inc.

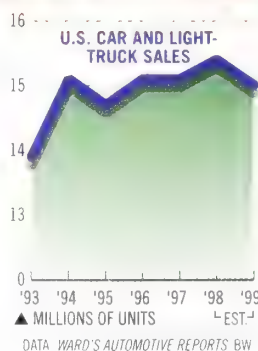
European cars are proving there's a vibrant market under Detroit's nose for good design and engineering. Volkswagen Beetle's wild success in 1998 helped boost U.S. sales more than 60%. Analysts expect VW will do

better this year with the launch of a redesigned Jetta sedan and Golf small car. Mercedes-Benz will also grow briskly—and threaten Detroit's lead in luxury car sales with a new S-class sedan starting at \$60,000. That's a price cut of 10%. Overall, European auto makers will boost their share of the market to 5.8% in 1999, from 5.1% last year, Wesley Brown predicts.

Asian carmakers are also expected to ground. Their share will rise 1.1 points to 25.6%, Nextrend projects. Most of that will go to Toyota Motor Corp. and Honda Motor Co. These two will be fighting a pitched battle for top-selling car honors, with the Toyota Camry defending its 1998 title against the Honda Accord.

However, Detroit is even more worried about Japanese plans to invade its truck turf. Market watchers expect GM and Honda to make inroads with hot new models like the Honda Odyssey minivan and Toyota Tundra pickup truck. But Detroit remains confident it can fend off the Japanese threat, as it cruises into its eighth consecutive year. "I don't expect consumers will roll over and stop buying," says Ford Chief Economist Martin B. Zimmermann. Power predicts the combined share of GM, Ford, and DaimlerChrysler will rise to 73% from 71.6%, thanks to

SPOTLIGHT



s recovery from its strike last summer. Analysts expect the three auto makers to earn a combined \$19.1 billion, up from last year's \$16.1 billion. How will Detroit keep the profits flowing as sales are slowing? By continuing to slash costs. The three companies have pledged a crash diet in 1999, cutting costs by as much as \$6.4 billion. On top of the billions they have cut since the mid-1990s. Ford, for example, has cut \$700 per vehicle in just the last two years, says Zimmerman. Auto makers are squeezing suppliers' margins while pruning product development costs and payrolls.

TAKEOVERS? That keen eye on excess capacity is critical in an industry glutted with overcapacity. Auto factories around the world can spit out 20 million more cars and trucks than the global market needs. Besides putting pressure on prices and profits, that excess capacity is forcing consolidation. Daimler Benz' \$35-billion acquisition of Chrysler in 1998 proved that anything can happen in the auto business. Says Ballew: "It would surprise me anymore." Industry insiders expect the next big move to come from Ford, which is sitting on a staggering \$23 billion pile of cash. GM and Volvo have both been rumored as takeover targets, but the companies deny it, and Ford remains tight-lipped. "That places us in a very strategic position." Ford's cash position will remain peppy this year as earnings hit \$6.8 billion, nearly keeping pace with 1998's expected record of \$7 billion, predicts Burnham. Says auto analyst David B. Healy, "While its Ford nemesis looks to bulk up, General Motors is slimming down. Next year, GM will unload its huge Delphi parts unit. The Delphi spin-off will be the first quarter with a \$1.5 billion public offering—and more than 100,000 workers will move from GM's pay-

roll to the "new" venture. On the heels of the Delphi move, this summer's national contract talks with the United Auto Workers. So 1999 shapes up as another year of labor relations for GM. But if the No. 1 auto maker can avoid a crippling strike, Healy believes it will nearly double earnings, to \$5 billion. That's still shy of the \$6 billion in operating earnings GM banked in 1997, but its overseas operations have suffered a 62% decline in profits since then. DaimlerChrysler, pulling off the biggest industrial restructuring in history, will be the main challenge this year. While GM and Chrysler have mostly complementary product lines, their cultures couldn't be more different. Blending American

DETROIT DETENTE?

After all the pain caused by last summer's United Auto Workers strike against General Motors, there's now talk of repairing relationships. We'll soon know if there's any chance. In July, negotiators for the union and GM, Ford, and DaimlerChrysler will begin hashing out terms of a new national contract. The GM talks will be the litmus test.

Whether the two sides can reach an accord depends on finding common ground on a number of hot issues. One is GM's plan to spin off its Delphi parts-making unit. Delphi President J.T. Battenberg III wants to negotiate a separate UAW contract matching the lower pay and less stringent work rules of nonunion suppliers. The UAW instead will push to organize workers and raise wages.

Another thorny issue is GM's drive to use more preassembled modules from suppliers that workers would simply snap together. GM would trim fixed costs by transferring more design and manufacturing work to suppliers, but the UAW worries the plan would reduce union jobs.



OPTIMISTIC: The UAW's Yokich talks of cooperation

The union is on mushy ground. GM isn't selling enough cars and trucks to keep all its factories running. Its market share has slipped to 29.4%, down 4 percentage points from 1994. Says Schroder & Co. auto analyst John Casesa: "If GM's market share doesn't turn up soon, they're going to have to confront this issue of excess capacity, and

that's something the union will be in no mood to discuss."

GM has grand expectations, though. Its goal is to boost its market share to 32% and profits to \$4 billion in 1999. But that assumes a year free of strikes—a pretty big "if."

In the past three years, GM plants have been hit by strikes 13 times. UAW President Stephen P. Yokich remains optimistic. "I hope we can get through these negotiations next July without a bigger struggle."

If the number of recent GM-UAW dinners is any sign, cooperation is in the air. But that doesn't necessarily mean smooth negotiations. What both sides need is fewer hors d'oeuvres and more meat.

By Joann Muller in Detroit

TREND LABOR TALKS

brashness with buttoned-down German stodginess is going to be really tough, says Healy. But Wall Street is optimistic: A First Call Corp. survey of analysts predicts DaimlerChrysler's earnings will grow 14% this year, to \$7.3 billion.

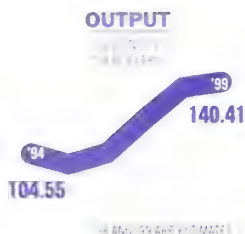
On Main Street, though, car dealers are cutting their profit projections and bracing for dangerous curves ahead. "What goes up must come down," shrugs Frank Ursomarso, a Pontiac and Ford dealer in Wilmington, Del. So 1999 may be a letdown from 1998, but it should be easy to take—even if it does mark the beginning of the end for an extraordinary period of expansion for the auto industry.

By Keith Naughton, with Kathleen Kerwin, in Detroit

"We'll see incentive wars," says one economist, who expects prices to drop by 1%

AEROSPACE

P R O G N O S I S 1 9 9 9



POSITIVES

- Defense spending is likely to rise in the U.S. and abroad, pushing revenues to all-time highs
- Better financial controls should stem the three-year tumble in operating margins

NEGATIVES

- International customers, led by Asia, are canceling commercial aircraft orders
- If consolidation in Europe takes root, transatlantic competition could intensify

Forget all the downbeat headlines about cutbacks and layoffs in the aerospace industry—at least for now. Those trends aren't due to make much of an impact until the millennium.

And with defense spending finally turning around, 1999 is shaping up as a banner year.

Although sales may blossom, the bouquets could go to fewer companies. Merger mania is far from over. Second-tier U.S. players are scratching for critical mass, and consolidation in Europe is set to take off. The next phase could be transatlantic megamergers. "Everyone is either a buyer or seller," says Jon B. Kutler, president of investment banker Quarterdeck Investment Partners Inc. "There's no future in standing still."

Despite woes at Lockheed Martin Corp., industry revenues this year are expected to grow 3.2%, hitting an all-time high of \$145 billion, according to the Aerospace Industries Assn. (AIA). And analysts figure that earnings also could top 1998's record \$7.4 billion—providing Boeing Co. and Airbus Industrie keep their pledges to focus on the bottom line. Better financial controls might even stem the industry's three-year tumble in operating margins. They slipped to 5% in 1998, down from 5.6% in 1996.

SOFT CHOPPERS. Nearly every category is due for growth. Aircraft sales will rise 4%, to \$80.9 billion. Revenues from commercial space gear, such as satellites, have tripled since 1991, to \$8.4 billion in 1998, and are looking up again. There is one soft spot: helicopters. Civilian chopper shipments will slump almost 10%.

On the military side, the Pentagon is shifting from development to procurement in such key weapons as Lockheed Martin's F-22 fighter. As a result, AIA pegs Defense Dept. purchases of aerospace gear at \$41.5 billion, up \$1.3 billion from 1998. European countries in compliance with the strict Maastricht budget requirements now may have flexibility to sweeten defense budgets, too.

These incremental gains seem sure to be overshadowed by news on the merger front, though. Despite Washington's thumbs-down on a Lockheed Martin-Northrop Grumman Corp. combo, analysts expect more moves such as B.F.

Goodrich Co.'s \$1.5 billion bid for Coltec Industries Inc. under review by the Justice Dept. Companies on the list include General Dynamics, Litton Industries, Northrop Grumman, and TRW.

Across the Atlantic, consolidation also is in the air. British Aerospace PLC and DaimlerChrysler Aerospace, among others, are mulling Continental marriages. And BAE Systems and General Electric Co. PLC might even be coaxed into unions with Lockheed Martin or Northrop Grumman.

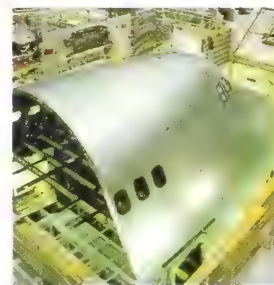
After 1999, the outlook is less rosy. If the global economy doesn't pick up, commercial orders and defense spending could come back to earth. But for 1999, the aerospace business will be flying high.

By Stan Crock in Washington

SPACE IS THE PLACE

Space and defense operations could be the salvation of Boeing Co.'s bottom line again this year, as they were in 1998. The two units will generate margins of 7% to 9% on unchanged revenues of roughly \$19 billion.

However, those upbeat numbers will be overwhelmed by the sluggish commercial-plane division. Its 1999 sales are pegged at \$38 billion. While that's an 8% increase, margins will be dismal—3% or less. Blame the low profits on production snarls stemming from 1997's surge in sales and aggressive



NOSE JOB: Making a 747

price competition.

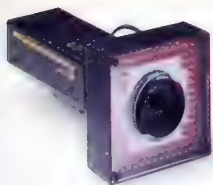
Two of Boeing's hopes for space will be showcased early this year. Liftoffs are slated for its new Delta 3 rocket and the joint-venture Sea Launch booster.

Multibillion-dollar projects stoking Boeing's military business

include the Joint Strike Fighter and the antimissile Airborne Laser platform. But if orders don't pick up for the F-15 fighter, the line could be shut down this summer. That would make better profits on commercial planes even more vital.

By Seanna Browder in Seattle

FOCUS
BOEING



For Jerri. Omron means a better way to build a car and an easier way to unlock her own.



Every day, Omron touches millions of lives in thousands of ways. Like the Omron compact vision system that allows Jerri to build cars faster with greater quality. And the keyless entry system she uses to unlock her own car at the end of the day. For greater control, safety, and convenience, look to the human side of Omron technology at www.omron.com



OMRON

Automation Systems • Components • Healthcare • Automotive • Retail

METALS

P R O G N O S I S 1 9 9 9



POSITIVES

- ▶ Streamlining has made U. S. steel better able to withstand the current downturn
- ▶ A steel industry lobbying effort could result in tougher and faster-acting antidumping laws

NEGATIVES

- ▶ A flood of foreign imports is causing U. S. steel prices to fall up to 30%
- ▶ U. S. steel production is slowing off 10,000 workers and thousands more could lose their jobs

If it's lucky, the U. S. steel industry will soon be recovering from last year's import crisis. But a lot of pieces need to fall in place: The economy must chug ahead and sustain demand

for cars, appliances, and new buildings. And foreign producers will have to ease up on exports and allow the current inventory bloat to thin out. That won't happen overnight. "The first part of 1999 will continue to hurt, but things should fall in line by the second half," predicts Mark L. Parr, senior vice-president and steel analyst at McDonald Investments.

For now, the industry is still reeling from the tsunami of foreign steel that crashed ashore in 1998. In just months, Asian, Russian, and Brazilian imports leapt 100% or more. By yearend, some 40 million tons of cheap imported steel—30% more than in 1997—had clobbered margins. Prices of "hot-rolled" steel, the industry's bread and butter, fell up to 30%, to about \$250 a ton. Some 10,000 steelworkers got pink slips.

Although the Clinton Administration has balked at protectionist measures, an industry counterattack seems to be making headway. Antidumping lawsuits were filed in September against several foreign producers, seeking penalties of up to 199% to offset allegedly unfair prices. "The avalanche of imports has slowed dramatically as a result of the trade lawsuits," says Keith E. Busse, president of Steel Dynamics Inc., a top minimill.

AFTEREFFECTS. Still, any respite could be temporary, says Busse. The foreign producers may simply switch to cold-rolled steel, which isn't covered by the lawsuits. That's one reason the industry has proposed tough trade-law revisions that would force Washington to provide quicker antidumping relief.

Domestically, the aftereffects of 1998 could linger for years. There may be a new consolidation round, similar to the one after the import onslaught in the '80s. This time, heavyweights may gobble up minimills. Some smaller players have weathered the storm reasonably well by controlling their costs. That impresses USX-U. S. Steel Group President Paul J. Wilhelm. He thinks a major mill-minimill blend might yield beneficial synergies.

In addition, big users of steel are sure to try to cash in on the low prices. Ford Motor Co.'s multiyear steel contract comes up for renewal in 1999, and tough bargaining is expected. General Motors Corp. and DaimlerChrysler may also try to renegotiate their contracts as well.

Still, if the U. S. economy avoids a major slowdown, should hold its own this year, says Andrew G. Sharkey, president of the American Iron & Steel Institute. He expects 1999 shipments of about 102 million tons, roughly the same as in 1998. Profits will remain skimpy, but any signs of recovery in Asia and elsewhere might help buoy bottom lines. The industry is so many other factors affecting this industry, may turn out to be more wishful thinking than green-eyeshade reality.

By Peter G. ...

ERECTING A FOREIGN STEEL BARRIER

The U. S. steel industry expects to get stung by cheap imports when foreign producers suffer economic calamities at home. But the scope of last year's deluge was unprecedented. So Big Steel wants big changes in U. S. trade policies to shield against a recurrence.

Joined by its labor unions, the industry is pushing the Senate Steel Caucus—senators from the 16 steel-producing states—to steer the changes through Congress. One key measure would make it easier to file antidumping suits. "There shouldn't be a need to show actual layoffs or losses" before going to court, says David L. Robertson, executive vice-president of Weirton Steel. And when

lawsuits succeed and antidumping penalties are imposed, some of the money should go to injured companies, not just the U. S. Treasury.

Another provision would force the Commerce Dept. to speed up its

reporting on steel imports.

Now, the data are two months out of date, while Mexico and Canada have almost real-time reporting.

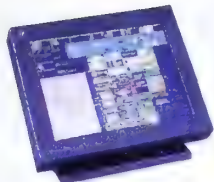
says Paul J. Wilhelm, president of USX-U. S. Steel Group.

Whether such ideas fly depends largely on working out regulation that jibe with those of the World Trade Organization. Steel executives don't expect any relief before fall, if at all. That will be too late to ease the current crisis. But it may blunt the

FOCUS

TRADE LAWS

For Beth, Omron makes it easier to take customer orders and to follow doctor's orders.



American Heart
Association
Fighting Heart Disease
and Stroke



American Heart Association recommends
regular blood pressure monitoring.

Every day, Omron touches millions of lives in thousands of ways. Like the POS system Beth's restaurant uses for easier food ordering and payment. And the automatically adjustable monitor she uses to accurately check her blood pressure. For products that deliver greater control, safety, and convenience, look to the human side of Omron technology at www.omron.com



OMRON

Automation Systems • Components • Healthcare • Automotive • Retail

ENERGY

P R O G N O S I S 1 9 9 9



POSITIVES

- After sinking to a 12-year low in 1998, crude oil prices are expected to stabilize
- Technological advances and belt-tightening have the industry better prepared for a downturn

NEGATIVES

- Demand will continue to be sluggish in the face of economic woes in Asia
- Natural-gas prices, which held up relatively well in 1998, are expected to drop this year by 10% as U.S. demand weakens

It looks as if the energy sector will strike out everywhere in 1999. Rock-bottom prices for crude oil and deteriorating rates for natural gas, combined with low chemical prices and weak

refinery margins, have sent shudders through the industry. Alan H. Struth, senior economist at Phillips Petroleum Co., says he "can't recall a time when all [parts] of the business were at or near record lows. I don't think anyone thought it would come down to this." Now, the pressure is mounting to find more costs to cut and improve profitability.

The pressure was already on in 1998, when inflation-adjusted prices for crude fell to their lowest levels in 12 years. The prospects for 1999 are not much better. The economic woes in Asia and Russia, a worldwide oil glut, slumping demand, and the prospect of yet another warm winter in Europe and America will continue to rock the industry. "It's going to be ugly," predicts Jack Taylor, national industry director for KPMG Peat Marwick's energy practice.

But while supplies will remain at lofty levels in 1999, industrywide production cuts should ease inventory growth somewhat. OPEC is expected to make the biggest cut, though no one is sure how much, during the first half of the year. As a result, 1999 supplies will grow only 0.1%, vs. 1.1% last year, figures CIBC Oppenheimer analyst L. Bruce Lanni. Meanwhile, world demand is expected to rise 1.9%, compared with 1998's 0.7%.

BALMY WEATHER. Still, industry experts say those gains won't be enough to give oil prices a bounce until late 1999—at the earliest. Energy consultant Purvin & Gertz Inc. sees the average cost of a barrel of oil in 1999 at between \$14 and \$14.50. In 1998, the average price settled at \$14.40, after sinking to \$10.50 in late December.

Energy companies won't be able to use natural gas to cushion the blow. Until recently, natural-gas prices had been holding up relatively well. But in the past few months, prices have been in free fall, thanks to balmy weather throughout the U.S. This year, natural-gas prices are expected to decline to about \$2.25 per 1,000 cubic feet, down

from \$2.55 in 1998, according to Arthur Andersen & Co.

Wall Street analysts expect service companies and drilling to be the hardest hit. According to Wall Street estimates compiled by First Call Corp., 1999 earnings will fall some 20% for drilling companies, vs. a 13% jump last year, and 10% for equipment companies, compared with a 12% rise in 1998.

In that sort of business climate, look for ever more structurings, cost-cutting, and mergers, such as the \$75.3 billion Exxon-Mobil match. "Most companies have accepted the new reality of low prices, low margins, and less access to capital," says Victor A. Burk, managing director of Arthur Andersen's worldwide energy services group. Good thing there aren't a lot of options for the energy business.

By Stephanie Anderson Forest in Houston

THE UPSIDE OF CHEAP OIL

The undisputed beneficiaries of the low crude oil prices that have knocked the bottom out of the energy business are U.S. consumers and the economy. But in 1999, some industry players will try to join that winners' circle.

No doubt, the new low-price era poses serious challenges to companies that are highly leveraged, have high cost structures, or depend on projects that are not economically viable at depressed oil prices. But it also creates "a time of opportunity for companies with strong balance sheets and access to capital," says Victor A. Burk, managing director of Arthur Andersen & Co.'s worldwide energy services group. "It will be a

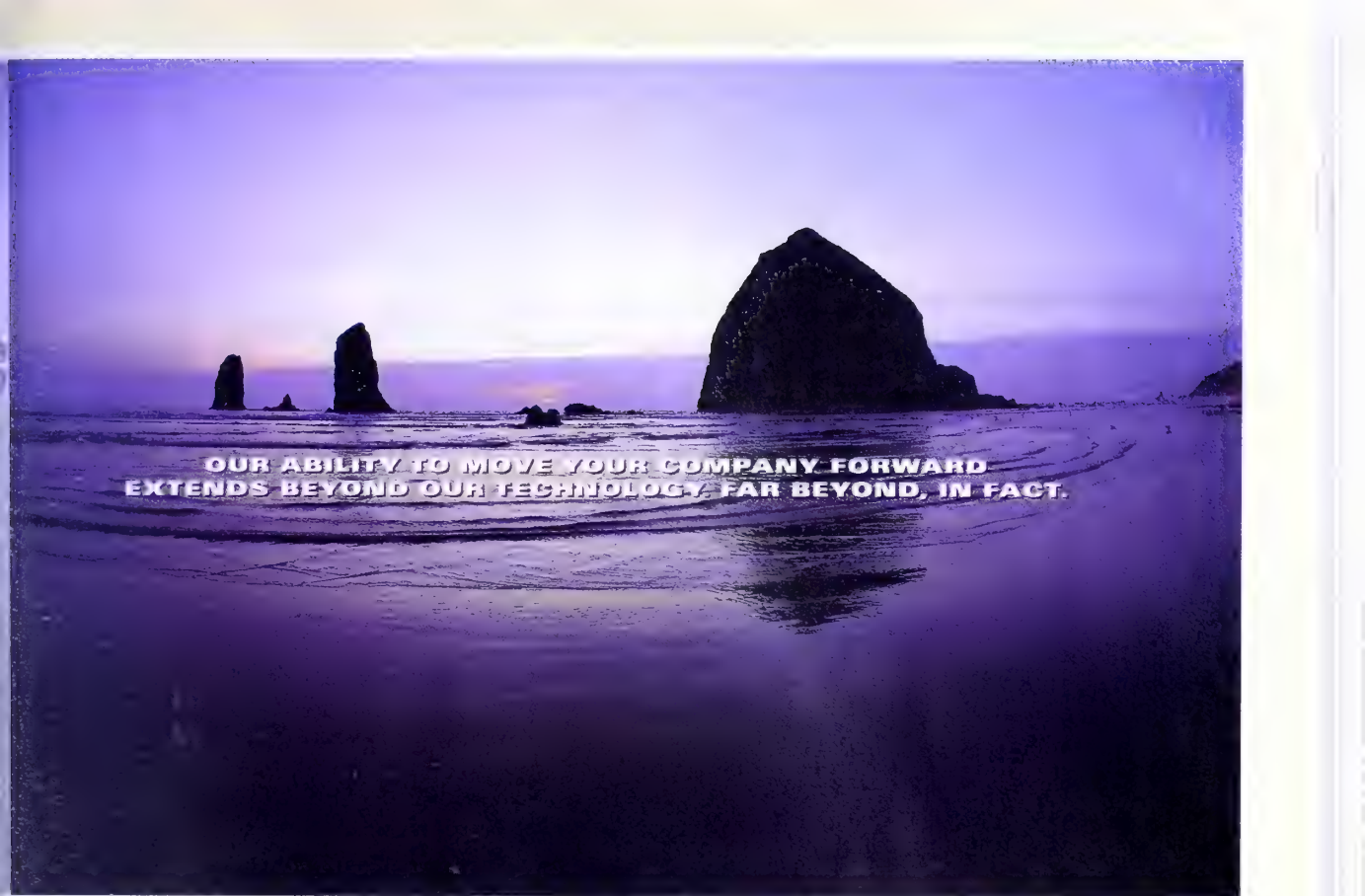
time for those companies to buy producing assets, expand strategic positions, and even acquire other companies."

Take Houston-based Apache Corp. In late 1997, before most of its competitors, Apache began

slashing capital spending, sold assets, and shored up its balance sheet. Now

Apache is hoping to snap up the assets that merging big oil companies and struggling rivals will likely shed in 1999. "We could pretty easily spend \$500 million or \$600 million without it being too difficult a stretch," says Lisa A. Floyd, vice president for business development. Look for other independents to come to the same conclusion this year.

FOCUS
SMALL ENERGY
COMPANIES



**OUR ABILITY TO MOVE YOUR COMPANY FORWARD
EXTENDS BEYOND OUR TECHNOLOGY. FAR BEYOND, IN FACT.**

A Great Plains midmarket enterprise-wide solution includes more than Y2K-compliant software fully integrated with Microsoft BackOffice.

It includes great people. A Great Plains solution is backed by the most qualified and extensive partner network of resellers in the industry. Working hand in hand with our own support team members, who display messages from thousands of delighted customers.

Our reputation for service and support is legendary. We were first to offer customers guaranteed response times, and we've delivered a 99.97% success rate. And along the way we've earned virtually every service award out there, including the STAR Award from the Software Support Professionals Association — twice.

To learn more, call us at **1-800-456-0025** or visit **www.greatplains.com** today. And discover a company ready to go the distance with you.



S E E F A R T H E R



Your
export manager is in a
foreign jail.

No one knows
where.

Or why.

YOU sent him halfway around the world to mine opportunity. He's a valuable employee. He's in trouble. What should you do? Do you know the laws? The culture? The courts?

This is the real world small companies live in when they work overseas. When things go wrong, they go wrong on a large scale. And if your company is not properly covered, the world becomes an ugly place.

How can AIG help? By doing things others can't. By taking what you know about "insurance" and turning that notion on its head.

Who insures you?

Take our WORLDRISE™ coverage. It goes far beyond the mere coverage of method of shipment or unforeseen events. Our coverages insure you against property damage, product liability, marine and foreign travel accidents, kidnapping, ransom, and extortion, and provide for emergency medical assistance.

Perhaps our greatest strength lies in our ability to act swiftly most anywhere. Because we have operations in virtually every major market, we have people who bring a local understanding to your business, who grasp the intricacies of a foreign culture, who can negotiate foreign law.

This experience uniquely positions us to work where others can't, to tackle problems others shy away from. And because our reputation is solidly backed by Triple-A-rated financial strength, you can rest assured that the AIG Companies will be there for you.

So no matter what the risk, no matter where the risk, the AIG Companies possess the experience, sophistication, and global resources to custom-tailor a policy that places a buffer between you and the unexpected.

Call your broker or e-mail daniel.confalone@aig.com to find out more about our WORLDRISE™ coverage.

What's the worst that could happen? That's what we think about every day.

WORLD LEADERS IN INSURANCE AND FINANCIAL SERVICES
American International Companies, 70 Pine Street, Dept. A, New York, NY 10270. www.aig.com





A six-day investment this April can pay dividends for years to come.

In today's global economy the success of an industrial enterprise often depends on how rapidly it adapts to change. A showcase for more than 7,500 exhibitors from 70 countries, the HANNOVER FAIR delivers the latest solutions and innovations.

HANNOVER FAIR '99 Exhibition Program

- Factory Automation
- Power Transmission and Control
- Factory Equipment, Tools, and Compressed Air Technology
- Subcontracting and Industrial Materials
- Rail Transport Technology
- Research and Technology

HANNOVER FAIR Online

www.hannovermesse.de
www.hifusa.com

Exhibitor and Visitor Services - Special
Presentations - Supporting Events
Travel and Accommodations - Tickets
Cultural Events - Press Service



Deutsche Messe AG
Hannover, Germany

Call today for ticket and travel information!

Hannover Fairs USA, Inc., • 103 Carnegie Center • Princeton, NJ 08540 •

Tel.: (609) 987-1202 • Fax: (609) 987-0092 • E-mail: hannoverfair@hfusa.com



**HANNOVER
MESSE**

APRIL 19 - 24, 1999

DISTRIBUTION



RETAILING Some analysts think U.S. shoppers, spooked by stock market dips, are preparing to tighten their purse strings—causing retailers' sales growth to slacken. But the big discount houses will benefit from consumers' new caution. And the home furnishings trade will be brisk, thanks to the strong gain in housing sales.

Revenue for 1999: +3.48%

124

FOOD Increasingly, bigger is better for both restaurant and supermarket chains, as mergers, takeovers, and market saturation squeeze out the smaller fry. Meanwhile, the major food packagers are cutting costs, making double-digit earnings declines seem less likely this year.

Revenue for 1999: +1.1%

TRANSPORTATION Union Pacific has finally cleaned up its act—so much so that it's making the whole rail sector look stronger than it really is. Overall, growth will be slowing for both railroads and trucking, and trucks are further hampered by a manpower shortage.

Revenue for 1999: +1.5%

128

RETAILING

P R O G N O S I S 1 9 9 9

EXCLUDES EATING & DRINKING PLACES AND GROCERY STORES

OUTPUT

BILLIONS OF '98 DOLLARS



EMPLOYMENT

THOUSANDS OF '98 DOLLARS



PRODUCTIVITY

THOUSANDS OF '98 DOLLARS PER EMPLOYEE



DATA: DRI/McGRAW-HILL

POSITIVES

- ▶ *Electronic commerce continues to grow. The Christmas boom in online shopping should carry over into 1999*
- ▶ *Asian economic woes have had little ripple effect on American consumers*

NEGATIVES

- ▶ *Sales help is getting harder to hire and keep. Stores must pay more for staffers*
- ▶ *Consumers continue to resist any price hikes threatening retailers' profitability*

As consumers start reacting to signs of an economic slackening, watch for retailers to feel their pain. The National Retail Federation, the industry's leading trade group, predicts that

sales growth will slow—from a 5%-to-6% pace in 1998 to a 4%-to-5% rate this year. Merchants say they were already expecting the shift, having been tipped off by a slowdown during the second half of 1998. "We're not negative," says Marvin J. Girouard, CEO of Pier 1 Imports Inc. "But we're not stupid, either. We're practical enough to know this boom can't last forever."

Merchants and industry experts point to several economic trends that are making consumers tighten their purse strings. Swings in the stock market, for example, have proved dangerous to consumer confidence. Witness jeweler Tiffany & Co., which suffered uneven U.S. sales in the summer. Analysts say future market dips—and even future recoveries—will dampen spending. "The fact that the market went down and then went back up again only underscores how little control we as consumers have," says Wendy Liebmann, president of WSL Marketing in New York. "Nothing makes consumers more nervous than having no idea what's going to happen to all that money next."

CAUTION. Continued layoffs are also worrying retailers. Even if most Americans keep their jobs, news of firings at employers such as Boeing Co. and Merrill Lynch & Co. shakes people's confidence.

But several pockets of retailing will benefit from consumers' caution. Discounters, already leading the pack in 1998, are getting ready for another big year. Wal-Mart Stores Inc. is expected to show a 16% gain in sales, to \$137 billion, for its fiscal year ending January. Wal-Mart CEO David D. Glass says the company should show same-store gains of "high single digits" in 1999. "Even with a little softening in the economy, we'll have a great year," he boasts.

Home-furnishings stores are also expected to benefit, thanks to the strong gain in housing sales over the past year. That gives many consumers empty rooms to fill.

Despite all the forecasts of coming gloom, many merchants say they'll believe it when they see it. After all, 1998's sales performance was hardly steady. Sales were healthy in spring, slipped during summer, bounced back again at Thanksgiving, and slipped some more when unusually balmy weather hit the East Coast in December. The roller coaster has retailers trashing the trend gurus. "Just before Thanksgiving, the headlines weren't positive. The media was making all nervous," says David Feld, CEO of Today's Man Inc. "At Thanksgiving weekend happened, and it was higher than expected. Maybe I should read less." Better to keep an eye on consumers instead.

By Ellen Neuborne in New York, with Wendy Zuckerman and Stephanie Anderson Forest in Dallas

ANYTHINGYOUWANT.COM

What do you do when you're one of retailing's oldest existing venues—but all the excitement in the industry is going on in cyberspace? Federated Department Stores, parent to the Macy's and Bloomingdale's department-store chains, has decided to follow the trend online, launching www.macys.com to offer the store's full selection of merchandise to their customers on the Internet.

Traditional department stores have been slow to experiment in cyberspace, but that could soon change. Macys.com President Kent Anderson says that the Web site, which had its debut a few months ago, is attracting consumers who

are somewhat younger than those that Macy's usually sees in its stores. In addition, it is drawing shoppers who don't live near a Macy's. "We have effectively extended the Macy's shopping experience," he says.

Some outsiders tend to agree with him. "Macy's has set the bar quite a bit higher for its direct competitors,"

says Kate Delhagen, director of online retail strategies at Forrester Research Inc. "Instead of the old toe-dipping strategy, they went for broke, brought in a serious manager, put up all their products and more. It's a bellwether move." But will they have a virtual Santa next Christmas?

FOCUS

MACY'S
ONLINE

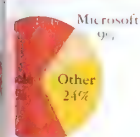
Oracle is the

Foundation

of the Internet.



The biggest and best Web sites use Oracle®.



From Amazon.com to Yahoo!, the most popular Web sites depend on Oracle's ability to handle huge numbers of users and enormous quantities of information—text, images, audio, video—everything. In fact, nearly 70% of the Internet's top e-commerce sites use Oracle®. And now, with the introduction of Oracle8i™, things will get even better. To find out why Oracle is the foundation of the Internet, come visit us at www.oracle.com/info/28 or call 1-800-633-0517, ext. 18924.

ORACLE®

FOOD

P R O G N O S I S 1 9 9 9

FOOD STORES AND EATING & DRINKING PLACES



POSITIVES

- The shift toward higher-margin prepared food will continue, with supermarkets offering store brands
- Low commodity prices will boost margins for packaged-goods makers and restaurants

NEGATIVES

- Tight labor market driving up wages for sector's 20 million employees
- The industry has figured out how to advertise or sell over Internet

There has been no big-bang merger in the food industry—Exxon-Mobil or DaimlerChrysler. But consolidation come nonetheless. There have been hundreds of

restaurant mergers and a handful of large grocery takeovers. And it is likely to set the tone for the industry in the years to come.

Increasingly, size is what counts. In a bid to win market share, the big restaurant chains have been expanding so fast over the past few years that they have outpaced the surge in diners. McDonald's, for example, has increased its number of U.S. outlets by 50% over the past decade. That kind of saturation makes it tough for the mediocre—or midsized—chains to stay in the game. And as consumers buy more and more prepared foods, and look to the Internet for delivery, medium-size supermarkets will also find themselves outclassed. "When the going gets tough," says Piper Jaffray Inc. restaurant analyst Alan F. Hickok, "the weak get weaker."

The problems affecting the industry aren't getting any easier. Although most analysts expect food costs to remain low, they will rise slightly from 1998's historic lows. Low unemployment rates will keep labor costs relatively high. And the number of new restaurant outlets added, though slowing after the decade's huge building spree, will continue to exceed demand. The National Restaurant Association estimates that the nation's restaurants will produce real growth in 1999 of only 1.8%, compared with 2.6% last year.

Looming over the industry is a possible downturn in the economy. Much of the restaurant sector's recent growth has come at pricey joints like steakhouses, which saw sales increase 6.5% in 1998. Even without a slowdown, profit margins have been squeezed industrywide to below 3%, not much more than half what they were in the early 1990s, a result of too many seats and not enough bodies. Given the high cost of labor and pricing pressures at fast-food and mid-scale restaurants, "I can't see a scenario in which margins will improve," predicts Ron Paul, president of Technomic Inc., a Chicago market researcher.

For packaged-foods companies, the goal will be a year with solid growth. Last year, old standbys Kellogg and Nabisco Inc. paid the price for losing touch with consumers, allowing private labels to grab market share. As a result, their 1998 earnings got hammered. "Historically, the industry has been known for its consistency," says Prudential Securities Inc. analyst John M. McMillin. "It was anything but consistent in '98."

With cost-cutting programs and new management in at many major firms, double-digit earnings declines should be less likely this year. In this uncertain economy, that's the best news to be found for an industry that's supposed to be relatively recession-proof.

By David Leonhardt in Chicago

"LIKE IT? I NUKED IT MYSELF"

The late 20th century has seen a big shift in U.S. eating habits. More than ever before, people pay others to prepare their food. As a result, restaurants and food-service outlets have seen their share of food dollars grow to 48% from 46% in 1993.

But a new trend is emerging—consumers may spend less time in the kitchen, but they still want to play a part in the process. So expect a range of hybrid products to come onto the scene in 1999.

Sales of refrigerated prepared meals—which can require more steps than frozen meals—will grow 10% to 12%, says Technomic, a Chicago-based researcher. And in February, ConAgra will launch Marie



HOME-FRY: Little work, lots of know-how

Callender's skillet meals. This line of products allows pseudo-chefs to

dump frozen meat and vegetables into a pan, fry for 20 minutes, and feel as if they've cooked a meal. "If you cook for somebody, you're saying you love them," says ConAgra CEO Bruce Rohde. Just don't let them see the box.

TREND
PREPARED
FOOD



Not just a face in the crowd.

"It's an unsettling thought, but if every other technology company in the world mysteriously disappeared, we could probably get by on NEC alone."

— *THE RED HERRING*

That's because NEC's expertise spans the computer, communications, imaging and semiconductor technologies that together make up the world of multimedia. Our ATM systems integrate voice, video and data so you can collaborate on just about any kind of project with colleagues just about anywhere. Our graphics accelerators give countless interactive games their turbocharged thrills. Our full-color, hand-held computers let you slip your office into your briefcase. Our new, flat panel monitors are delivering superior image quality from almost any angle. And our virtual microscopes are creating a whole new way to study the motions of molecules. Discover the world of multimedia. Because it's your world. And NEC can help you run it. **www.nec.com 1.800.338.9549**

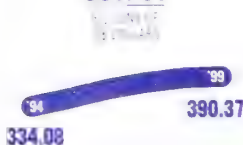
just imagine
NEC MULTIMEDIA

NEC

TRANSPORTATION

P R O G N O S I S 1 9 9 9

OUTPUT

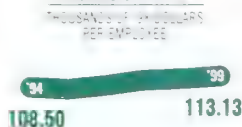


* AND ** ARE ESTIMATES

EMPLOYMENT



PRODUCTIVITY



* AND ** ARE ESTIMATES

POSITIVES

- Some truckers are winning back business lost to a strike threat in 1998, and shipping rates are rising
- Low fuel costs continue to boost all sectors
- Union Pacific's service recovery should gain speed

NEGATIVES

- The breakup of Conrail could cause rail service problems in the East
- Regulatory tinkering could pinch rail profits
- Driver shortages for trucking firms, leading to wage hikes of 3% or more

W

hile railroads and truckers had more business than they could comfortably handle last year, customers could be back in the driver's seat in 1999. Slowing economic

growth, rising competition in some sectors, and efforts to smooth out last year's service problems should give some customers more leverage.

In the rail business, mergers continue to dominate the agenda. Union Pacific Corp., the nation's largest railroad, should return to profitability for the year as it fixes the traffic snarls stemming from its 1996 acquisition of Southern Pacific. Chief Executive Richard K. Davidson figures the company lost business worth \$600 million and some \$400 million in potential new contracts because of its problems in the past year and a half. Now it's scrambling to win that business back. "We're not expecting huge price increases [in '99]. What we've got to do first is to re-earn our customers' respect," says Davidson, who has pushed more responsibility to regional managers, who are closer to customers.

With Union Pacific's problems fresh in their minds, CSX Corp. and Norfolk Southern Corp. are treading carefully as they plan to divide up Conrail in the first quarter. Railroad analysts fear that any problems with these mergers, approved by federal regulators in 1998, could prompt costly re-regulation of the industry.

Merrill Lynch & Co. analyst Michael H. Lloyd predicts that the five biggest U.S. railroads, including Conrail, will see revenue growth of 4.4% this year, vs. 0.4% in '98. But that's because of Union Pacific's rebound. Without UP, growth would slow to 2.9%, from 3.5% in '98.

JUST IN TIME. Trucking companies are also expected to see a slowdown from the robust growth rates of the past few years. But they will still post solid gains, thanks to a growing demand for just-in-time deliveries. Lower fuel prices and rate increases should boost the bottom line, though a continuing scarcity of drivers will push up labor costs.

Truckload carriers, which carry freight on a truck for one customer, will post

earnings and revenue gains of about 10%, compared 15% in '98, predicts analyst Douglas W. Rockel of ING F. Furman Selz. Nonunion less-than-truckload (LTL) carriers, which consolidate freight for multiple shippers on their own, will see strong gains, too, possibly matching last year's growth. And after being hurt by a strike threat in 1998, unionized LTL carriers should rebound.

Industry giants Federal Express Corp. and United Parcel Service of America Inc. are facing a lot more competition from these smaller companies. But FedEx and UPS should see gains, thanks in part to the shipping boom sparked by the rise of Internet shopping. There's a development that could hurt both customers and their shipping companies.

By Wendy Zellner in

NO TRAIN WRECK HERE

After the service snafus that hit Union Pacific and Burlington Northern Santa Fe following their recent mergers, the worst might be expected when CSX and Norfolk Southern



CSX: Wiser from past mistakes

split up Conrail early this year.

But railroads, analysts, and some shipping groups say things will be different this time—CSX and Norfolk Southern are assumed to have learned from past mistakes.

If they haven't, regulators and Congress will likely pounce. A Union Pacific-style disaster "will have dev-

astating ramifications for the whole industry," says analyst Anthony Hatch.

So far, the outlook is good. Unlike Union Pacific, the railroads in this d-

plan to merge operations only after

new labor agreements are in place

and computer systems are

melded. And they have been

adding people and locomotives

in advance. "Everybody at

Norfolk Southern is con-

scious that the world really is

watching us," says CEO David R.

Goode. He can count on that.

FOCUS

RAIL MERGER

The one-stop, stop-everything financial center.

Introducing the new E*TRADE®. The Web's one-stop financial center. With 10x more research.* More tools. More power.



All You Need to Invest

You can invest in stocks, options, and over 4,200 mutual funds. You also get cash management features like free checking, direct deposit, and competitive interest on uninvested funds.

Free Real-Time Quotes

Because old information is bad information. Also get breaking news. Charts. Analysis from leading sources. Morningstar research. Upgrades. Downgrades. All for free.

Still \$14.95 a Trade*

E*TRADE® not only gives you free tools to track and manage your money, but you can place orders around the clock—online or by phone—and trade stocks for as low as \$14.95.

1-800-ETRADE-1
www.etrade.com
 aol keyword: etrade



E*TRADE®

Someday, we'll all invest *this way*®



*more research than previous generation Web site. *Nasdaq limit, and stop orders are \$19.95. For listed orders over 5,000 shares, add 1¢/share to the entire order. Add \$15 for broker-assisted trades. Direct modem and touchtone connect fees are 27¢/minute, but with a credit of 12 free minutes per trade, you may pay nothing. rs executed during market hours. E*TRADE® rated #1 online broker by Gomez Advisors' 3rd & 4th quarter reports on Internet brokers, issued 8/12/98 & 11/19/98 respectively. Gomez Advisors is a leading independent authority on online financial services. ©1999 E*TRADE® Securities, Inc. Member NASD, SIPC.

The Business Week/Lawson Software
Healthcare CIO Summit
January 10 -12, 1999
Hyatt Regency At Gainey Ranch, Scottsdale, AZ

Setting Course

*...when Y2K problems, labor shortages, mergers, and justifying IT value is set to derail you. A successful Healthcare CIO must be a vital part of the organization's decision-making process, but are you? Success requires building and implementing an IT strategy that can flex with a company's vision that changes almost daily. Will you be prepared? Or do you have plans in place for risk sharing new and unproven technologies that promise improved performance? Join Business Week and Lawson Software to explore these and other issues at this lively, unusual and fully interactive program: **A business meeting by Healthcare CIOs for Healthcare CIOs.***

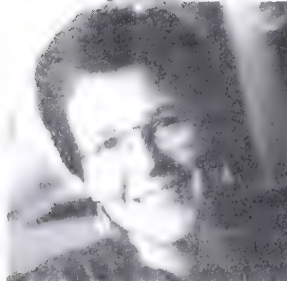
featured speakers

Stephanie Reel
Vice President and CIO
Johns Hopkins Health System

David B. Pryor M.D.
System Vice President-
Information Officer
Allina Health System

Debra Speight
Vice President Information
Technology and CIO
Harvard Pilgrim Health Care

Albert Sinisi
Vice President & Chief Information
Officer, Children's Hospital of
Philadelphia



Abbie Lundberg
Editor in Chief
CIO Magazine

Dave Printz
Vice President and CIO
MacNeal Hospital

Buddy Gillespie
Vice President & Chief Information
Officer, York Health System

Paula Anthony
Vice President, Information Systems
East Texas Medical Center
Regional Healthcare System

TO REGISTER CALL 1-888-838-8383 or visit www.lawson.com
(Space and attendance is limited)

SERVICES



EDUCATION The \$660 billion schooling business will grow only 5% to 6% this year. However, torrid expansion will come in corporate training and in supplemental programs for tech-minded adults.

Revenue for 1999: +2%

132

4 TRAVEL A hotel-building boom could cause prices to dip, while airlines may face a regulatory assault from Washington and anger from business travelers over the high ticket prices they routinely have to pay.

Revenue for 1999: +1.63%

REAL ESTATE Because of the crisis rocking Asia, Russia, and Latin America, this sector didn't overheat in 1998. Now, it's looking at low interest rates, healthy demand, and surprisingly small inventory levels.

Revenue for 1999: +0.87%

136

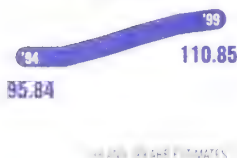
8 UTILITIES The deregulation revolution that was predicted in California has stalled as safeguards for current players have kept potential rivals from entering. A new wrinkle: Foreign utilities are buying American.

Revenue for 1999: +0.98%

EDUCATION

P R O G N O S I S 1 9 9 9

OUTPUT



EMPLOYMENT

MILLIONS OF WORKERS



PRODUCTIVITY

THOUSANDS OF '98 DOLLARS PER EMPLOYEE



POSITIVES

- Increasing numbers of high school graduates seeking highly focused career training drives for-profit college growth
- A need for constant retraining propels the corporate training market

NEGATIVE

- Regulations and resistance hinder growth in the for-profit management of schools
- Despite a big jump in IPOs of for-profit education companies, investors punish any missteps

The complaints are loud and familiar: Primary and secondary schools are flailing about. Colleges and universities are turning out insufficient numbers of graduates for the N

Economy. And Corporate America can't keep its employees properly up to speed on technological change. Education may seem to be in crisis and decline, but therein lies opportunity: Scores of entrepreneurs and companies sense a chance to make money by doing better.

As a result, the \$660 billion education industry is taking on some of the hallmarks of an emerging-growth market, fueled by demographics, technology, and dissatisfaction with the status quo. Well-financed entrepreneurs are spending tens of millions of dollars of their fortunes on education startups or on helping established companies expand. As much as \$4 billion in venture capital is looking for deals well beyond the traditional secondary and college markets. Everything is being considered, from educational software to online-learning programs for college students and managers.

Financier Michael R. Milken and Oracle Corp. Chairman Lawrence J. Ellison are assembling a "cradle-to-post-retirement" collection of companies under the Knowledge Universe umbrella. "We have a broad vision," says Thomas J. Kalinske, president of Knowledge. "If you start with kids and help them learn faster and better, the chances are that when they are parents they'll have a positive feeling, and later turn to us for continuing education." He says Knowledge Universe has sales of \$1 billion to \$1.5 billion.

QUICK TO ANGER. Microsoft Corp. co-founder Paul Allen's Vulcan Ventures Inc. has also invested in a handful of deals, including a corporate training company, Asymetrix Corp., and a series of high school advanced-placement courses for online distribution. "The opportunities are tremendous," says Vulcan President William Savoy.

Will a torrent of private-sector money suddenly transform learning? Certainly not overnight. And the public markets, which have gobbled up some three dozen initial public offerings in education in the past few years, are quick to anger at the slightest misstep. Case in point: CBT Group PLC, one of the leaders in computer-training software for companies, saw its stock plunge from a peak of nearly 64 to below 7. CBT's tumble affected many other newly public education stocks, send-

ing an important signal. "There has been so much emotion on education that it has driven some very good companies to tremendous [trading] premiums," says Susan Harman, the first education industry investment banker, now president of the new venture firm Core Learning Group. "It reminds me a lot of biotech—there will be blips, but you have to have a long-term perspective."

"PIPE DREAM." The education industry will grow by only 6% this year—but some pieces will grow at nearly that pace. Among them are businesses supplying kindergarten through high schools with computers or tutoring. Others likely to grow fast are those delivering specialized college or professional degrees to the growing number of school graduates or working adults who are seeking education at nontraditional, for-profit schools—such as DeVry University of Phoenix Inc. In the \$60 billion corporate

training market, revenues in the information technology arena should rise nearly 12%, to \$1.5 billion, with online delivery up 42%, estimates International Data Corp.

The troubled K-12 sector is gaining some interest, although there are plenty of skeptics. Making money by managing primary and secondary schools is "a pipe dream," says Citicorp's Montgomery Securities analyst Keith Gay, "but the ancillary opportunities are enormous and nonthreatening." Still, Edison Project has contracts to run 48 schools in 25 cities. And Sylvan Learning Systems Inc. is expanding beyond tutoring centers to on-site coaching in reading, math, and science in hundreds of public schools. In response to a looming teacher shortage, Sylvan is pushing

hard into the training and testing of future educators.

The increasing ability of teachers to control so-called supplemental teaching materials—texts or CD-ROMs—is creating yet another new investment area. Now a \$2 billion market, supplemental education could grow as much as 9% this year vs. 4% for traditional textbooks, says Tribune Co. education unit president, Robert Bosau. Tribune plans to boost sales in this sector, in part by acquisition, from around \$100 million to \$500 million over the next year.

Supplemental education is also attracting the tech-

SPOTLIGHT



DATA: INTERNATIONAL DATA CORP.

A San Ramon (Calif.) startup, Corp., is putting computer labs in Internet connections into middle schools, free of charge. Tech-rendors and other corporate sponsors advertise in corners of the Web

the coming year, there will continue new forces driving the market for beyond high school. For one the sheer numbers of projected and part-time college students is standing: From a trough of 2.2 students in 1992, the total is expected to grow to 3.2 million by 2004. % of those students are now adults over the age of 24. Comuch as DeVry, Apollo Group Inc. of the University of Phoenix), Educational Services, which have d by providing narrowly focused degrees, are all expanding their and course offerings. Sales could % for the group, to \$1.7 billion in nates NationsBanc.

ESS RUSH. The ability to deliver and professional certification over the Internet is generating t breathless rush to the medium, es bringing together for-profit itional schools. Sylvan and MCI m Inc. developed a joint ven- iliber Learning Network Inc., ey took public last May, with of providing distance learning ssionals in classrooms. So far, as signed deals with Johns Hop- versity and the Wharton School niversity of Pennsylvania to ded- ical and business courses at und the country. But the com- osing money. "There are great prospects, but it won't happen," admits Sylvan President Dou- ecker.

asn't stopped plenty of educa- eyeing distance-learning pros- linske, of Knowledge Universe, roll out a Knowledge Univer-

ie fall of '99, offering professional certificates and, a master's in business. He's aiming for a program ures the attention of the busy professional. "You put up endless hours of lectures and note-taking,"

ate trainers are especially keen to go high tech. using the Internet and CD-ROMS to teach managers g from how to use software to the principles of f- id staff diversity. International Data Corp. reckons ology-delivered training will grow from \$1.9 billion o \$2.7 billion this year and hit \$7.8 billion in 2002. ies have to live with the fact that, with tight labor

CLASS IS WHERE THE COMPUTER IS

Cheryl Rowles-Stokes, a 38-year-old working mother of two girls, is nearing completion of a master's in business communication. After slog- ging through four years of night school to finish a law degree at the University of Denver in 1994, Rowles-Stokes decided that "tradi- tional school was out." So she joined the fast-growing cohort of adults who are distance learners, forsaking the classroom for an Internet-driven program that allows her to learn when and where she wants. "Your classroom is now anywhere your computer is," enthuses Rowles-Stokes, director of human resources at Rifkin & Associates, a Denver cable- management firm.

Distance learning has become far more than the slightly cheesy corre- spondence courses advertised on matchbook covers. As many as

400,000 students are spending \$2 billion on courses provided by both traditional colleges and high-quality private firms, according to consul- tants Hezel & Associates.

Rowles-Stokes' degree is offered by Jones International University, started by cable-TV entrepreneur Glenn R. Jones. Its 18 professional certificate programs, plus bachelor's and master's degrees in business communications, are delivered to some 700 students who pay \$700 for each eight-week class. During her lunch hour or late at night, Rowles-

FOCUS DISTANCE LEARNING

Stokes logs on to the Jones Web site to find out her reading assignments and to participate in online discus- sion groups. Online learning

is not for everyone, she cautions: "You really need self-discipline." And she would steer high school grads away in favor of the social

interaction that tradition- al colleges provide.

Those quibbles aside, Rowles-Stokes couldn't be more pleased with the flexibility of her classes—and their relevance to her work. Rowles-Stokes must design her own Web page to graduate, which she'll use to link Rifkin em- ployees more closely to her human resources department.



ROWLES-STOKES: "Traditional school was out"

forces, they have to train who they have," says Vulcan's Savoy.

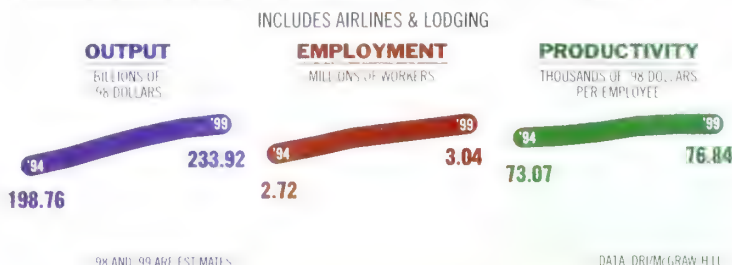
But the industry is learning it can't take corporate cus- tomers for granted. A common problem: Companies don't become repeat buyers of the courses without regular fol- low-up and, often, in-class teaching and customization. "Too many companies are designing products without regard to the customer's needs and how they'll use them," warns Matthew Feldman, managing director of Learning Insights, which offers CD-ROM finance products. This fast-emerging market has little tolerance for such shortsightedness.

By Richard A. Melcher in Chicago

today's crop of college students, 44% are adults over 24. They want tech skills

TRAVEL

P R O G N O S I S 1 9 9 9



POSITIVES

- Carriers in smaller communities could benefit from proposed federal rules against predatory pricing
- The hotel industry will continue to snap up new properties, thanks to low financing costs

NEGATIVES

- Commission caps change the way travel agencies operate and drive many smaller out of business
- High aviation labor costs will mean product cost-cutting elsewhere

Although the travel industry has long been vulnerable to economic storms, airlines, hotels, and travel agents have been able to shrug off the warnings from Asia. N

however, they face some homegrown problems.

Hotel chains, for example, spent 1998 building and acquiring properties like mad, driven by the low cost of financing. That could lead to a dip in prices in early 1999 for low and moderately priced rooms. As this building boom peaks in 2000 or 2001, analysts are expecting price wars, with even the best hotels lowering rates by as much as 10%.

The major airline carriers have a slightly different problem. With full planes and flat ticket prices, they have to find new ways to feed profits. David A. Swierenga, chief economist for the Air Transport Assn., says airlines are ready for a slowdown: Traffic is expected to grow 2.8% in 1999, but carriers have upped capacity by only 3%. "We've set ourselves up for the coming cycle to weather it," says Swierenga.

The airlines have more problems than slowing demand, though. Major carriers will likely face a regulatory assault and discontent from business travelers angered over the high fares they pay. That could benefit low-fare airlines. "We may very well pick up market share as people shop harder for low fares," says Gary C. Kelly, chief financial officer of Dallas-based Southwest Airlines Co.

BIG BLOCS. To keep costs low, the airlines are increasingly turning to international alliances. Carriers in 1998 broke into four camps: the Wings group, led by Northwest and KLM; United's Star Alliance; oneworld, led by American Airlines and British Airways; and a Delta partnership with European carriers. This year will tell whether the teams can go beyond marketing agreements.

Alliance partners will begin by sharing ticket counters and expanding their powerful purchasing blocs. Look next for consolidation at terminals, where Wings agents, for example, will replace employees from Northwest Airlines Inc. and KLM Royal Dutch Airlines.

Electronic ticketing will help the bottom line by saving the airlines millions of

dollars in distribution costs. About 40% of domestic passengers already fly on E-tickets, and some analysts think E-ticketing could be universal in the U.S. by yearend.

Travel agents are coping with the rush to E-ticketing by offering new services, such as charging \$10 to \$20 to clients the lowest ticket price. Full-service shops will offer their clients everything from a car-and-driver in Lumpur to a cellular phone in Pakistan. And look for more specialization. "You've got some very narrow categories like golf tours, culinary tours, and occult tours," says S. D. Loucks, a spokesman for the American Society of Travel Agents. Maybe even some cheap tours to Asia?

By Lorraine Woellert in Washington
with Wendy Zellner in

A SKY FULL OF SQUABBLES

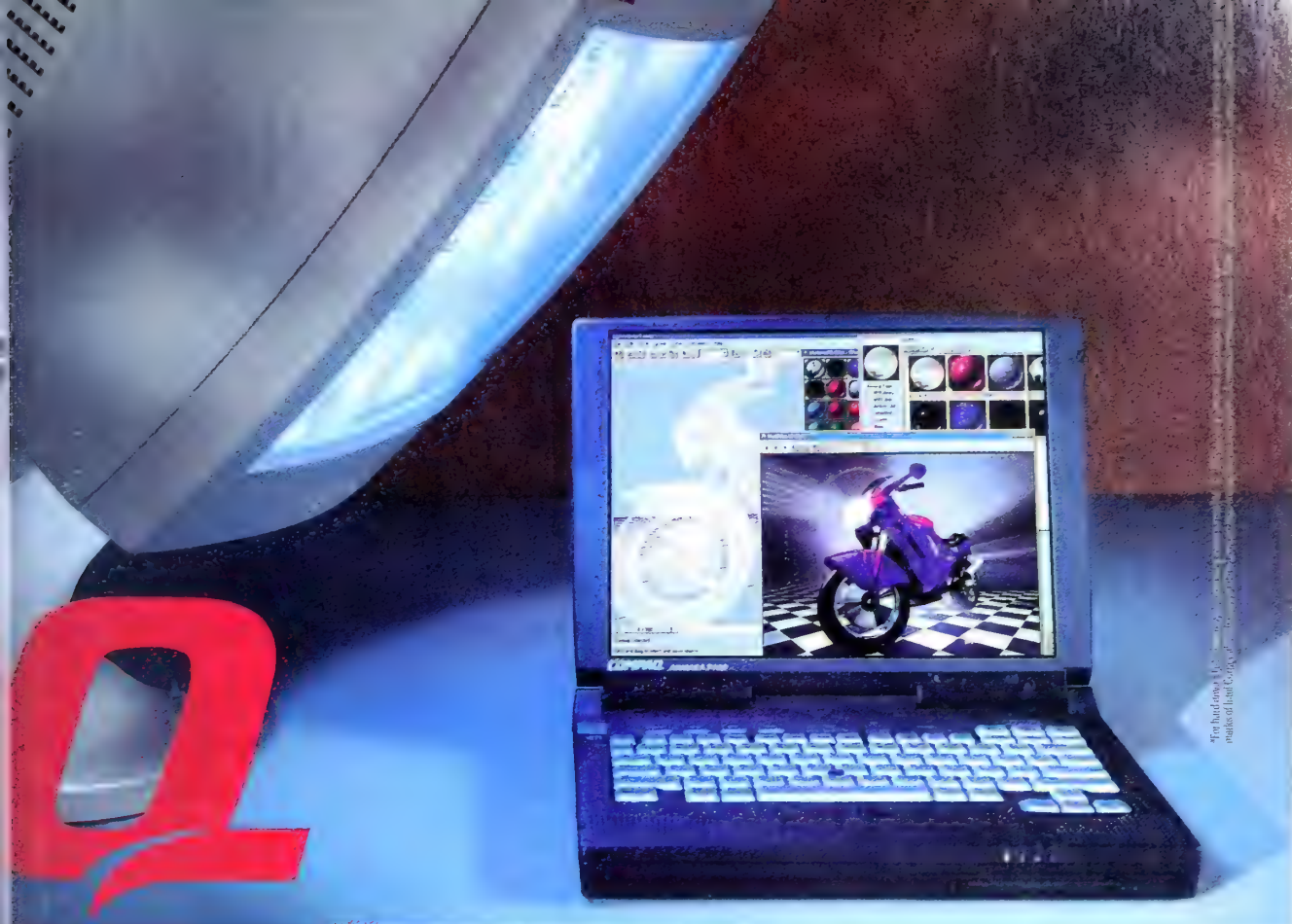
Small airlines cheered when Vice President Al Gore hopped on the re-regulation bandwagon in late 1998. In an Iowa stump speech, the Vice President took Republicans to task for siding with carriers against a Clinton Administration effort to inject more competition into the airline industry.

The Presidential hopeful might have won over one constituency with his remarks, but he alienated another: labor. Unions are mobilizing against a Transportation Dept. plan to control what it calls predatory pricing: low fares and increased capacity offered by big airlines in deals that last only long enough to drive small players out of a market.

The union push could sway the still-hot debate in the coming year, peeling off support of Democrats, who otherwise might back Transportation. Labor isn't especially fond of big airlines, but it harbors a special dislike for startups that hold down costs by paying lower wages. The splintered constituencies will only make it harder for Congress and Transportation to push one side or the other of the debate.

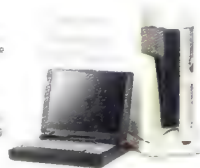
Which might not be so bad. On the industry, Capitol Hill, and the Administration stop shooting at each other, a compromise could be possible. The big question—will compromise lead to more competition? Travelers can only hope.

FOCUS
PREDATORY
PRICING



“Whoa.
You been
working out?”

It's a head-turning combination: Compaq Armada 7000 Series notebooks have the muscle—Intel Pentium II processors up to 300 MHz—to run desktop-class software. Yet they're built for the road, with models featuring ultra-durable magnesium alloy casings. And they're loaded: displays up to 14.1". Hard drives up to 8 GB. Dazzling AGP graphics. Plus, they dock into our easily expandable ArmadaStation or Tower Stand. To learn more, call 1-800-AT-COMPAQ. Or visit www.compaq.com/whoa.



COMPAQ Better answers.™

REAL ESTATE

P R O G N O S I S 1 9 9 9



POSITIVES

- The Federal Reserve is expected to keep interest rates low, cushioning any economic slowdown
- Commercial developers have resisted overbuilding, so office inventories remain surprisingly low

NEGATIVES

- Rampant overbuilding of budget-priced hotels is about to lead to a shakeout as those chains go through a shakeout
- Too many stores are being built when a retail shakeout is looming

If the global currency crisis that has rocked Asia, Russia, and Latin America was good for any U.S. industry, it was real estate. The financial crisis in Asia helped cool off an industry

that was on the brink of overheating. When the Asian storm clouds began building last spring, lenders and investors began pulling back on speculative commercial and residential developments. At the same time, the plunge in interest and mortgage rates provided a needed shot in the arm to the residential market. "We managed to cut off the boom before it overshot," says Ray H. D'Ardenne, chief operating officer of Atlanta-based Lend Lease Real Estate Investments Inc. As a result, "We're going to realize a longer real estate cycle this time."

Thus, the real estate sector greets the new year with low interest rates, healthy demand, and inventory levels that are surprisingly small by historical standards. The biggest benefits have come on the commercial front. Coming off a 23% surge this year, U.S. construction starts are likely to rise only 5% this year, to 247 million square feet of office space, according to The McGraw-Hill Companies' F.W. Dodge Div. The value of those contracts, however, will rise 9%, to \$27.8 billion, thanks to the tight office markets in many cities. Arthur J. Mirante, president of New York-based Coldwell Banker, believes those tight conditions will also allow landlords to raise rents by 5% to 10% this year. Hottest markets will be major tech and finance centers like San Francisco, New York, and Boston, while overheated Sun Belt markets like Dallas and Atlanta are most likely to slow.

NICE RIDE. The Asian crisis is having salutary benefits on the residential front as well: It triggered a flight to quality by foreign investors buying into Treasuries, mortgage-backed assets, and other securities. The shift in capital, coupled with the Federal Reserve's own moves to ease credit, helped reduce mortgage rates so much that housing affordability hit a 20-year high last year. That's one of the reasons for the 1.61 million new single-family and multi-

family housing starts in 1998, a record year—and permits for new residential construction remain strong at the start of 1999.

While it will be hard for builders to match 1998's pace of construction, David J. Seiders, chief economist for the National Association of Home Builders, is forecasting 1.48 million starts this coming year. That would still be a sharp increase over 1996 and 1997.

Even though growth seems like a comedown from the record pace, real estate veterans aren't complaining. They've lived through too many booms that invariably led to busts for most builders, lenders, and agents will be content to enjoy the ride for at least one more year.

By Dean Foust in Atlanta

CASA SWEET CASA

For decades, immigrants aspiring to own their own homes were denied this slice of the American Dream by mortgage lenders who "red-lined" low-income and ethnic neighborhoods. How times have changed. With the U.S. enjoying an immigration wave not seen since the early 1990s, lenders and builders are targeting these New Americans.

The trend is gathering steam in border states, particularly California, where one in four new home buyers is a non-native American. Nationwide,

E&Y Leventhal Real Estate Group predicts that between now and 2010, new immigrants and their children will account for 30 million home purchases.

Builders are getting the idea, too: In Vallejo, Calif., the Campobello subdivision has attracted Filipinos by constructing many of the 305 homes with

six bedrooms for parents and other relatives. And one of the street numbers in one Irwin (Calif.) subdivision includes the number "4"—which connotes death in some Asian cultures.

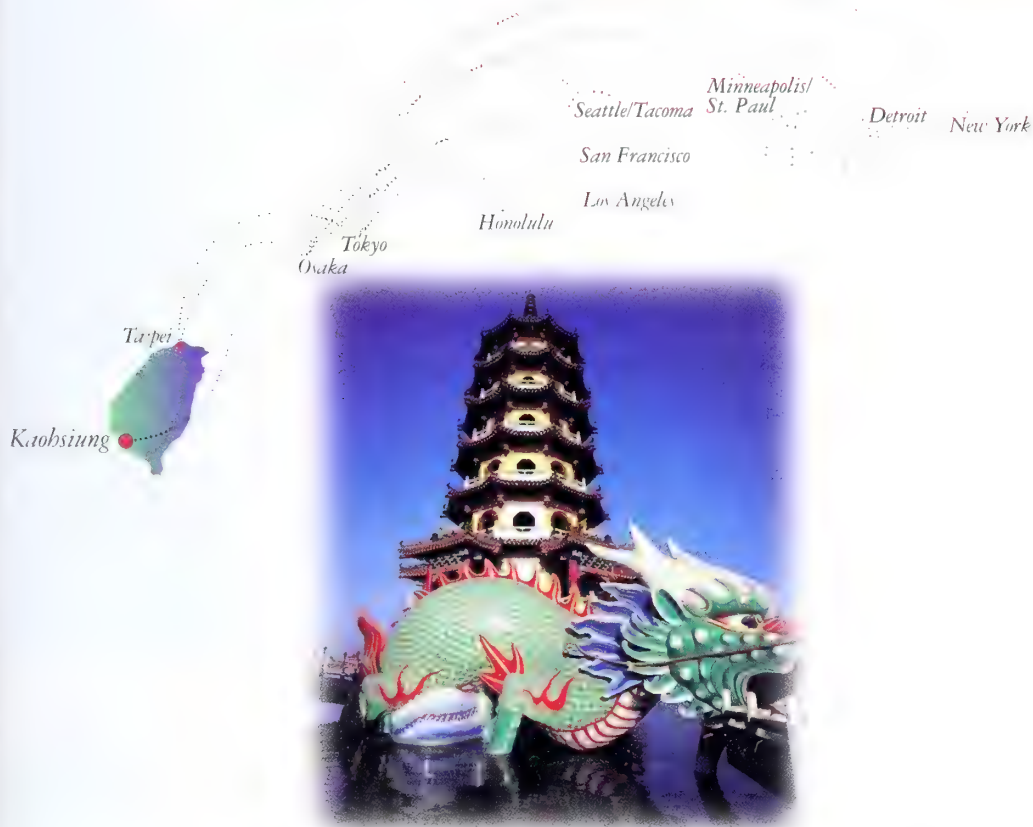
TREND

SELLING TO IMMIGRANTS



NEW WAVE: Immigrants will buy increasing numbers of homes

The **airline** that rewards you
with more choices to **Asia**
now gives you
two rewarding choices to **Taiwan.**



Northwest introduces direct service to Kaohsiung.
Four times weekly, starting January 15th.

- Earn** • Getting to Taiwan, for business or pleasure, has never been easier or more
rewarding. That's because Northwest Airlines, with daily flights to Taipei, is now
up to • launching direct service to Kaohsiung from our convenient gateways in Los Angeles,
Detroit, and Seattle. And each and every flight to Kaohsiung and Taipei includes
10,000 • a generous supply of WorldPerks® Bonus Mileage...up to 10,000 extra miles. Just
enroll by calling 1-800-508-2000, ext. 1612.
- WorldPerks** • Northwest, the U.S. airline that knows Asia best, and serves more cities in
Asia than any other U.S. carrier, now includes Kaohsiung on its list of rewarding
Bonus • choices. Four times a week, starting January 15th.
- Miles** • Call your travel agent, or Northwest at 1-800-447-4747. Or reach us on the web
at www.nwa.com.

Terms and Conditions: Must be US/Canada WorldPerks Member. Must be enrolled prior to travel. Travel must be completed between January 15 and March 14, 1999. Travel must be on paid fares booked in: F/WBC-F/P/C/J, Coach-Y/B/M. WorldPerks Bonus Miles: For F/WBC travel, 10,000; for Y/B/M travel, 5,000; for H/Q travel, 3,000. Allow 2 to 3 weeks after travel for Bonus Miles to be credited to your WorldPerks Account. Enroll for bonus miles by calling 1-800-508-2000 ext. 1612.
©1998 Northwest Airlines, Inc. Northwest recycles enough paper products in one year to save 16,000 trees ♻️



1-800-447-4747 / www.nwa.com

UTILITIES

P R O G N O S I S 1 9 9 9



POSITIVES

- Independent system operators that act like air-traffic controllers on the national energy grid are coming into their own
- Some utilities are positioning themselves as multi-energy distributors

NEGATIVES

- Bad publicity during the June/July energy crisis has Congress taking action at deregulation
- Some states have made it difficult for outside utilities to grab a significant customer base

Since 1995, utility bosses have either fretted or fantasized about the opportunities that would flow from deregulating the \$210 billion market for electricity. Efficient utilities with

lower rates could grow rapidly by winning business from sloppy rivals, since consumers could pick from a menu of producers. The revolution was to kick off with California's \$23 billion electricity market, then spread to other states.

It hasn't worked that way. California's carefully orchestrated initiative includes built-in rules and safeguards to help existing utilities recover their investments. The barriers proved so high that potential rivals have shunned California.

Now, there's a new wrinkle. For the first time, U.S. utilities are in the sights of foreign rivals. In December, Ian Robinson, chief executive of Scottish Power PLC, bid \$7.9 billion for PacifiCorp in Portland, Ore. A week later, National Grid Group PLC, a power distributor in England and Wales, offered \$3.2 billion for New England Electric System, the Westborough (Mass.) parent of four utilities. Both British companies say they may make more acquisitions, and Robinson predicts that within 12 months, "there are going to be a handful of other [foreign] power companies in the U.S."

For utility execs, the first concern is finding effective recipes for states making the transition to a competitive market. With Illinois, New York, and other states pushing ahead with deregulation, the utilities hope to avoid repeats of the California situation and foster environments that don't prevent newcomers from setting realistic prices. The industry is also lobbying Congress to change the Public Utility Holding Co. Act of 1935, which has killed several proposed mergers between utilities in neighboring states.

But there are issues beyond deregulation as well. The Environmental Protection Agency wants tougher controls on power-plant emissions. And some states are pushing the environmental button, too—requiring monthly bills that tell consumers in detail how much of their power comes from nuclear, coal-fired, or gas-powered generators. Environmentalists hope that, armed with this knowledge,

consumers will select the companies that pollute the least.

There are also some nuts-and-bolts matters to clear up. The Federal Energy Regulatory Commission is still trying to figure out how to set up a system for efficiently transmitting electricity across the U.S. power grid. Managing the pergrid may require a new authority—the need for which was highlighted last July, when territorial disputes blocked the delivery of power bought by utilities in the Midwest from power plants in Georgia and New England.

Nobody expects government and the industry to solve such problems overnight. That means a truly competitive deregulated market for electricity will remain a distant prospect in 1999.

By De'Ann Weimer in Chicago

HAPPY INVESTORS, ANGRY CUSTOMERS

Psst! Wanna buy some nukes? Power plants, that is. John W. Rowe might come up with a quantity discount. His company, Unicom, is the parent of Commonwealth Edison, which serves Chicago and most of Illinois and Indiana. It owns six nuclear-power plants Rowe wants to sell. Since taking the reins in February, Rowe, 58, has put 15 coal-fired generating plants on the block.

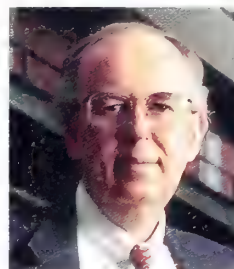
"We need to focus on delivery, not generation," he says. "Delivery will still be a regulated industry, and that's what Commonwealth Edison will be able to do best."

Since the utility expects

to pay its bills by piping electricity to homes and offices, repairing its distribution system is a top priority. During last year's summer of discontent, power outages and failures angered customers, and Chicago Mayor Richard Daley even called a press conference to lash out at the utility.

Despite the problems, Rowe expects patient support on West Street, thanks in part to his pioneering role in utility deregulation in New England. If he manages to palm off those nuclear plants, America might have a new star in the gallery of turnaround artists.

FOCUS UNICOM



ROWE: Service woes

FINANCE



SECURITIES There's no question that 1998 was a humbling year for the industry. A slowdown in corporate profits could hurt the stock market again in '99. But that hit may be offset by low—even declining—interest rates. The biggest wild card is Y2K computer glitches. The best source of solace: mergers and acquisitions.

Revenue for 1999: +9.9%

142

7 INSURANCE Flat pricing, stagnant demand: a recipe for “dullsville,” as one analyst puts it. Insurers are capital-rich, but growth looks tepid. And they're unusually vulnerable to Y2K disasters—not just their own but on policies they've written to reimburse other companies.

Revenue for 1999: +2.2%

BANKING With the Federal Reserve lowering interest rates, analysts suspect that banks will see their margins squeezed, as deposit rates stay put and returns on loans and bonds fall. But with the domestic economy robust and asset quality strong, the outlook is not all bleak.

Revenue for 1999: +2.2%

148

FOR AD RATES AND INFORMATION
PHONE: (312) 464-0500
FAX: (312) 464-0512 OR WRITE:

BusinessWeek

MARKETPLACE

BUSINESS WEEK MARKETPLACE
500 NORTH MICHIGAN AVENUE, SUITE 20
CHICAGO, IL 60611

Corporate Gifts

Logo Tattoos!

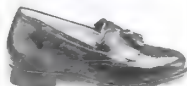


1000 Temporary Tattoos with your Logo.
Just \$189.00!!
plus \$10.00 S&H (CA add 7.25% sales tax)
Customized Full Color 2" x 2"

Calico
3000 Alamo Drive, Ste 201 • Vacaville, CA 95987
Tel: 707/448-7072 • Fax: 707/448-8273

Men's Footwear

MEN: BE TALLER!!



MINI-BACK GUARANTEE
FREE 101-731-10
ELEVATORS!

1-800-290-TALL

Education / Instruction

GET THE EDGE!

COLUMBIA BUSINESS SCHOOL

Columbia Executive Education
Learning that powers performance.

UPCOMING COURSES

Finance and Accounting for the Nonfinancial Executive
(Mar 21 - 26) (Jun 13 - 18)

The Transition to General Management
(Apr 18 - 30) (Oct 31 - Nov 12)

Emerging Leader Development Program
(Mar 14 - 19) (Dec 12 - 17)

For more information on these and other programs:
Call 212-854-3395 ext. 64

Visit our web site at: www.columbia.edu/cu/business/execed

MAKE A BIG HIT
Logo & Personalized Golf Balls

Titleist
TOP FLITE
Wilson
PRECEPT
Pinnacle
MAXFL

To Order Call
1-888-ID BALLS
(1-888-432-2557)

CD-ROM Equipment

Easy to use! No computer needed.

CD COPIER
\$1695

CD Copiers by Princeton Disc
800-426-0247

Home Furnishings

BUY DIRECT!
from North Carolina, furniture capital of the world. Shop and save. In home delivery. Over 400 manufacturers to choose from.

HOMEWAY FURNITURE COMPANY
P.O. Box 1548, Mt. Airy, NC 27030
(800) 334-9094 (336) 786-6151

Men's Footwear

MEN'S WIDE SHOES
EEE-EEEEEE, SIZES 5-13
FREE catalog • High quality • 160 styles



HITCHCOCK SHOES, INC.
Dept. 884 Hingham, MA 02043
1-800-992-A-WIDE www.hitchcockshoes.com

Asian Consulting Services

ASIA'S CRISIS IS AMERICA'S BUSINESS OPPORTUNITY
Expert consultation on Asian strategies, including RE/Equity Investment, Partnerships/Joint Ventures, OEM, Outsourcing, & Market Distribution & Development. U.S. 408-779-9085 Fax 408-779-2374; Seoul, Korea 82-20647-0705 • Fax 82-2-646-3771 e-mail: johnlee@jek.co.kr

Conference Calls

COMPLETE, HIGH QUALITY FULLY AUTOMATED CONFERENCE CALL SYSTEM
NO equipment to buy, phone lines to be installed, or set up charges. Save big \$ over other companies "Lowest Rates" Call RemoteLink toll-free for 24 hr info

1-877-CONF-SYS
(877-266-3797)

Education / Instruction

MONTICELLO UNIVERSITY
The Practitioner's MBA & JD Programs. Accredited Doctor, Master, Bachelor.
www.monticello.edu
Fax 913-661-9414
800-405-7935

MBA BY DISTANCE LEARNING

(800) MBA-0707

For immediate FaxBack literature: from your fax machine's phone, call (510) 486-8900.

The Leader in Distance Learning for 20 Years

• Associate • Bachelor • Master • Doctor
Business Mgmt • HRM • Health Care
Management of Technology,
Psychology, Law

Southern California University for Professional Studies
1840 E 17th St BW, Santa Ana, CA 92705
800-477-2254 www.scups.edu

Business Opportunity

Security Document Shredding Trucks



- Growth industry has proven track record
- Buy direct from manufacturer - no franchise or license requirement
- Minimum cash requirement \$50,000

Call SHRED-TRUCK
1-800-380-4566

MAKE MONEY AS A BUSINESS FINANCIAL CONSULTANT

Financial Business Loans and more. Leads from Shred-Truck. No experience necessary. Work from home. No office. No inventory. No employees. No franchise fees. No license. No inventory. No employees. No franchise fees. No license.

FREE 45 minute video seminar and information packet

CALL 1-800-336-1111
The Loan Consultants

Education / Instruction

A Winning Strategy to Take You to the Next Level

MBA

providing distance learning

No GMAT required

For more information and a free brochure call us at 800-874-5844

Franchising

ARE YOU SITTING ON A GOLD MINE?
Franchise

CALL 1-800-372-4000

Take it to the Next Level. Because of the high demand for this product, you can make big money. This is the perfect time to start your own business. The market is growing. Start now and maximize your potential.

francorp

Financial Services

\$30,000 to \$50,000
Start or expand your business with a business loan. Guaranteed by the government. www.business-capital.com
1-888-745-6756

FOR AD RATES AND INFORMATION
PHONE: (312) 464-0500
FAX: (312) 464-0512 OR WRITE:

Business Services

CALL NOW
SAVE 30% to 50%

BUSINESS AND COMPUTER CHECKS

Ordering is easy!
Call up the phone and CALL
DESIGNER CHECKS
239.4087 ext. 29
1-800-774-1118
designerchecks.com

• Deposit tickets in front of you as well
• We'll fax you a copy of the check &
• We'll call to confirm your order

Satisfaction Guaranteed

CORPORATE

Information
• States and Offshore
• Owned and operated
• **corpcreations.com**
0-672-9110
TRADEMARK

Business Financing

FINANCING FOR INVOICES

**Finance Your
Invoices Receivable**
No Hassles • No Financials
• Customize financing
• Suit your company
and Financial, Inc.
(800) 747-4234

Financial Services

0 to \$95,000
Instant approval.com
0% to 12.00%
• 24 hr. Svc. - EZ approval
• 5.5% - Borrowing Made Easier
• Ensuring balance deposits.
45-6752 ext. 1005

Relief Products

RELIEF - THE FINEST IN MASSAGE CHAIRS

Own Personal
Day-
Night-Home.
Call Details Today!
Massage Chairs Direct
or Contemporary Styles
1-800-353-9917

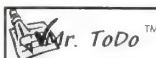
Business Software

MAIL ORDERS • WEB ORDERS PHONE ORDERS

Order entry, credit card processing, shipping, A/R, A/P,
contact management with integrated, internet email options,
inventory management, reporting, list management and
mailing... everything you need for order using by phone, mail
even the World Wide Web in one comprehensive, secure and
affordable Windows program from Dtdacomp

Call 1-800-858-4666 or visit www.dtdacomp.com/bwk

MailOrderManager



NEW!

Mr. ToDo provides fast, flexible task
management for one user... or many

- Simple to learn and use
- Prints useful task reports
- Only \$29.95 to purchase
- Download a **FREE** 45-Day Evaluation
from our web site — www.easyfeet.com

To Order: 800-242-4775 ext 15622

Venture Capital

Corporate Investor Seeking To Invest

in emerging companies in new
media, consumer products
and branded services.

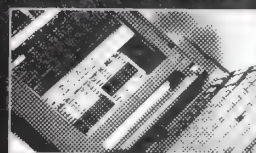
Please fax summary description
to **203-328-2394** or e-mail
bussplan@ix.netcom.com

Investment Services

Trade Online w/Signal

the real-time money-making machine!

- Stocks
- Futures
- Options
- Streaming
- Internet
- Delivery
- Free Nasdaq
- Level II
- Forex
- News
- Charting
- Historical
- Data
- Pager/cell
- phone alerts



Sign-up online today at:
www.dbc.com/bw
or call 888.200.1016 x140L

Computer Equipment

HEWLETT-PACKARD Buy-Sell-Trade

LaserJet ColorPro DraftMaster
DeskJet DraftPro DesignJet
Electrostatic Plotters RuggedWriter
HP 9000 Workstations & Vectras
Demo & Refurbished Equipment
Ted Dasher & Associates
PO Box 131269 Birmingham, AL 35213-6269
Phone 205/263-4747 Fax 205/263-1108
800/638-4833 • E-mail sales@dasher.com

Publishing Services

Publish Your Book

75-year tradition of quality. Subsidy
book publisher offers publishing
services for books of all types. For
free *Author's Guide* write Dorrance-
BW, 643 Smithfield, Pittsburgh, PA
or call 1-800-695-9599

Aviation / Fractional Ownership



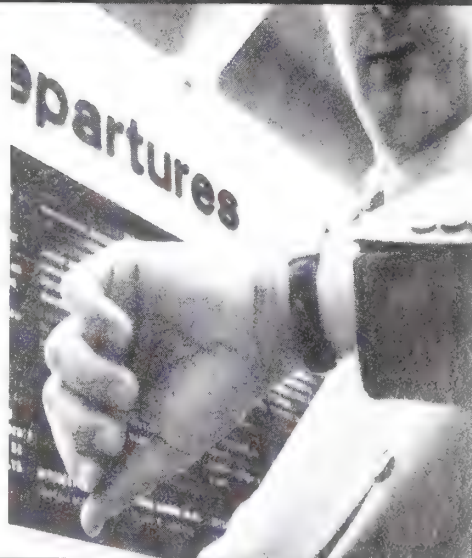
FLEXJET
LOSE SOME wait.

Our Flexjet Fractional Ownership
program puts a Learjet or Challenger
business jet at your disposal for as little
as \$175,000*. Which puts control of
your schedule back where it belongs:
with you.

To learn more, call us at **1-800-FLEXJET**
(353-9538). We're ready when you are.

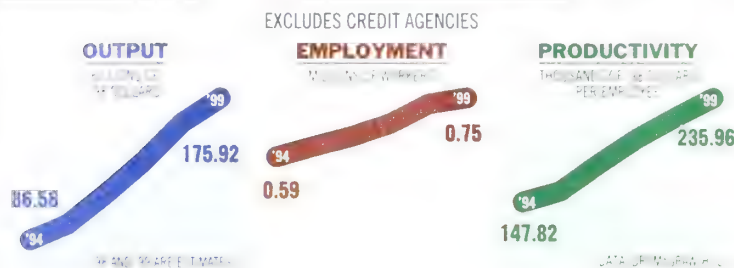
**BOMBARDIER
AEROSPACE**

*Estimated annual after-tax cost of ownership (500 occupied
hours over five years) in a Learjet 31A. Conditions apply.



SECURITIES

P R O G N O S I S 1 9 9 9



POSITIVES

- The mergers-and-acquisitions business should continue to boom, and interest rates are expected to stay low
- A financial-reform bill may finally pass Congress this year

NEGATIVES

- The global economic downturn and Year 2000 computer problems hurt profits
- Newly merged financial giants are still struggling for cohesion, synergy and brand identity

W

all Street will probably not do too badly in 1999, barring unforeseen economic, political, or technological disasters. Consider the recent travails of market leader Me

Lynch & Co. The firm laid off 5% of its workforce at the end of 1998. It expects the stock market to turn down in 1999's first half and forecasts only 1.25% global economic growth this year. Yet Merrill and other industry leaders are still optimistic about the industry and their own firms. Says Chief Executive David H. Komansky: "I think 1999 will be better than 1998. Low rates will generate an environment that we can operate in."

Komansky is betting that the benefits of low and possibly declining interest rates will offset the biggest negative facing the industry: a continuing slowdown in corporate profits, which could depress the stock market. Declining interest rates provide the best possible environment for Wall Street, because lower rates buoy the stock market and encourage issuers of debt.

There is no question that 1998 was a humbling year for the industry. Global fiascos, from Russia's debt default to Long-Term Capital Management LP's near collapse, generated losses and produced terrifying market volatility. As a result, the industry earned an estimated \$8.5 billion in pretax income in 1998, down from a record \$12 billion in 1997. And risk-conscious investors stampeded out of brokerage stocks. Through mid-December, 1998, an index of brokerage-stock prices weighted by market cap were up only 1.5%, says research firm Financial Service Analytics. That was after soaring 85% in 1997.

BIG BUG. The wild card this year that could seriously hurt earnings is the disruption from potential computer crashes caused by computers not programmed to recognize the year 2000. Morgan Stanley Dean Witter is concerned that a number of its global customers will be unable to upgrade their systems in time. That could force Morgan Stanley to stop doing business with them. Charles Schwab Corp. Co-Chief Executive David S. Pottruck is worried about everything from power interruptions to the ripple effect of

an unprepared Internal Revenue Service. "It's a big, question out there," he says.

Providing solace is the outlook for mergers-and-acquisitions, which set a new record at more than \$1 trillion in 1998, says Securities Data Co. And U.S. securities firms think they're poised to benefit from the advent of the year 2000. In Japan, U.S. firms expect to benefit from financial services reform and as savvy buyers of troubled financial firms. Japan's market deregulation will also give U.S. firms access to that market. In the U.S., legislators could finally pass a financial-services reform bill, which would let firms acquire banks. Add it all up, and this high-flying industry has a shot at a fair-to-middling year.

By Leah Nathans Spiro in New York

DEALS, DEALS, DEALS

For the mergers-and-acquisitions business, 1998 was nirvana. Global deals exceeded \$2.4 trillion, up 50% from 1997, estimates Richard J. Peterson, chief market strategist for Securities Data

(SDC). In the U.S. alone, \$1.5 trillion worth were announced. The boost comes from bigger deals, such as the \$75 billion Mobil-Exxon merger.

No firm caught the M&A wave better than Goldman Sachs & Co. Because of its focus on grooming and hiring top bankers, the firm advised on \$909 billion worth of deals last year, up from



CORZINE: "Banner year"

\$343 billion in 1997, says SDC. No. 2 dealmaker Merrill Lynch is far behind, with \$62 billion. "It was an absolutely banner year for M&A," says Jon S. Corzine, Goldman's chief executive.

Not that Goldman didn't have other problems, such as big trading losses. And after finally deciding to go public, the firm embarrassed itself postponing its own high-profile offering in September.

Despite speculation that Goldman will try again sometime in 1999, Corzine will say about the IPO is will do it when the time is right.

FOCUS
GOLDMAN
SACHS

A BUSINESS WEEK

EO
SummitNTED IN
ATION WITH
BUSINESS
OTABLE

ORED BY

MPANY

AEROSPACE

DEPARTMENT OF
DEVELOPMENTCOMMUNICATIONS
ION

M

T, INC.

PPORT FROM
EXECUTIVEh the cooperation of
SSIONAL
RLYessWeek
VE PROGRAMS

The New Rules:

MASTERING THE CHALLENGES OF THE NEW ECONOMY

Winning at the Intersection of Fear and Opportunity

Michael Bloomberg, the former investment banker-turned news baron has a lot to say about a lot of things – the economy, technology, the media business, even his prospects for becoming mayor. But the last thing you'd expect the swashbuckling entrepreneur to willingly discuss is fear. But fear was precisely what was on Bloomberg's mind when he faced prominent CEOs at *Business Week's* CEO summit, THE NEW RULES: MASTERING THE CHALLENGES OF A NEW ECONOMY.

"My great fear," he announced, "is that there are three guys in a garage right now doing the same thing to us that we did to Reuters and Dow Jones." Companies rise and fall before they know it, Bloomberg warned, and staying on top requires a CEO to anticipate major technological changes before they happen.

That kind of fear, fear of the unknown, fear of a world with new rules, fear that a shift in technology will decimate some businesses, is the most salient emotion driving executives into the New Economy. The forces of technology and global competition are redefining trade and business, forcing a fundamental shift in economic

thinking, and lending credence to a new type of economy now known as the New Economy.

The changes that await industry will be a major boon to some but a perilous threat to others. Ironically, the biggest threat is the one CEOs won't see. "What is likely to kill you in the New Economy is not somebody doing something better, it's somebody doing something different," Bloomberg insists. In two days of intense discussions at *Business Week's* 11th annual CEO summit, CEOs of mid- and large-cap corporations heard presentations from companies that have harnessed the power of the New Economy and begun to see the fruits. Attendees met with lawmakers, regulators and economists who are thrashing out the legislative and economic models that will drive the U.S. further into the New Economy, and were given a clearer picture of what the New Economy will and won't be.

Facts and Fiction

The New Economy is about information and how it's used. It favors ideas over tangible goods, and it's more about the mainstream use of technology than the technology itself. Its most fundamental principle is that a boom in technological development and global-



"My great fear is that there are three guys in a garage right now doing the same thing to us that we did to Reuters and Dow Jones." — **MICHAEL R. BLOOMBERG**,

founder and CEO, Bloomberg Financial Markets



ization have transformed the economy, allowing it to rumble faster than ever with little rise in inflation.

Most economists agree that fundamental changes in the economy have occurred. But a debate lingers over whether the changes are unprecedented, or whether they are simply a blip in the world's economic timeline. In a session, *The New Rules for the New Economy: The Great Debate*, a panel of top economists discussed the implications and plausibility of the New Economy, and whittled down the salient issues of the new economics.

The biggest problem with the concept of the New Economy is that it's largely misunderstood, argues **Michael Mandel**, *Business Week's* economics editor, who first coined the name for the new paradigm. "Rather than being paradise, the New Economy is a good news, bad news story," Mandel said. Many have



"EDS will continue to play a key leadership role in the increasingly important growth of the digital economy." — **JOHN MEYER**, EDS corporate vice-president;

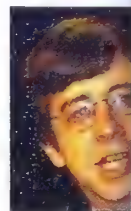
president, EDS Diversified Financial Services

mistakenly reasoned that the New Economy means an end to economic downturns, for instance, but the opposite is actually true, he said. "History suggests that both technology and changes in business can cause enormous volatility," he said. "In some ways, the New Economy is inevitably susceptible to sharp downturns." But many question whether the New Economy is actually new. "When you look at things historically, you'll always find new eras," said **Edward Yardeni**, chief economist at

Deutsche Morgan Grenfel, who introduced the concept of a "new age economy" in the late 1980s. "Wars are inflationary, and peacetime is deflationary," Yardeni said. "All I was saying is that the end of the Cold War is a big deal. It's a new paradigm I'm peddling, not an old concept called a free market."

Yardeni argues that inflation is not if not completely dead and deflation is taking over. As a result, stamping out inflation completely may not be the solution. "I think the Federal Reserve should focus on 2% inflation rather than zero percent," he said. "Zero is too close to deflation." Of course, the economy itself may not have changed at all; it's not the economy that's changed; we're recognizing just how important the changes in technology are.

Paul Romer, professor of economics at Stanford University, Romer notes, for instance, that politicians are taking an entirely new look at the economy and have a better grasp of economic principles. But at least some economists are still skeptical whether the changes are real. "The New Economy doctrine is an assemblage of various different pieces," says Paul Krugman, professor of economics at Massachusetts Institute of Technology. "There are a number of pieces in it that are humbug." Krugman calls into question the concept that globalization can kill inflation, for instance. "Globalization does wonders in driving down prices when oil prices drop and the dollar is high," he says, "but it's likely to do the opposite in reverse; globalization cuts both



MICHAEL MANDEL, economics editor, *Business Week*

"Some companies will sink in the new sea of information, while successful management teams will use technology to transform the sea of data into value-added information to create competitive advantage." — **VINCE TOBKIN**, director, Bain & Company



TRUST AND ANTITRUST IN THE NEW ECONOMY



A. DOUGLAS MELAMED
Principal Deputy
Assistant Attorney
General, Antitrust
Division, U.S.
Department of
Justice

No case will have as big an impact on the regulatory standards in the New Economy as the antitrust suit waged against Microsoft, a battle that's as much political as it is legal. The Justice Department contends that Microsoft forced computer manufacturers to purchase its Internet Explorer browser and contractually excluded Netscape from supplying its browser to Internet service providers, software makers and computer manufacturers. Several blocks from where the battle lines were being drawn, a panel of legal experts and government regulators gathered to discuss the case and explore its ramifications on other industries.

"Antitrust is not regulation, it is law enforcement," said **A. Douglas Melamed**, Principal Deputy Assistant Attorney General with the antitrust division of the Justice Department. "We do not approve mergers, and we have the narrow mandate of enforcing only the antitrust laws."

Unlike other antitrust battles, the Microsoft case is a quagmire. Although the company controls 90% of computer desktops, consumers themselves have seen few clear effects of an alleged monopoly. The government's supporters say Microsoft's practices hinder innovation by locking competitors out of markets, and the effects will be seen a few years down the line. "It's clear to everyone that Microsoft has monopoly power," said **Steven Salop**, professor of economics and law at Georgetown University. "The issue isn't monopoly power, the issue is whether Microsoft will maintain its monopoly position in an anticompetitive way."

Krugman also questioned the impact

/ SOLUTIONS FOR NEW ECONOMY PROBLEMS



SANFORD I. WEILL

Just as the New Economy's opportunities demand new ways of

thinking, its problems also require new solutions. While debate

over replenishing the IMF's coffers continued on Capitol Hill, Wall

Street bankers concocted their own bailout, pooling together

\$3.5 billion to shore up Long-Term Capital Management, the

\$80 billion hedge fund facing near collapse. In the middle was

Sanford I. Weill, the deal maker extraordinaire and chairman

and CEO of Travelers Group who orchestrated Travelers' merger

with Citicorp last year.

A day after announcing the bailout with executives of other

major Wall Street banks, Weill spoke to CEOs at the Summit,

emphasizing the importance of the IMF and the need for similar insurance policies

at a Wall Street meltdown.

le have a right to get into trouble, and they have a right to deal with the conse-

quences of their trouble," Weill said, stressing that the bailout of Long-Term Capital

is the best, if not the only solution to avert more market turmoil.

Many forebode continued turmoil until political solutions as well as economic

solutions are found. "It's relatively easy to change your budgets, to devalue your

currency, and such but the Asia crises are much more fundamental than that. It would

be naive to think this will get better anytime soon," said **C. Fred Bergsten**, director of

Institute for International Economics. "If the U.S. has a leadership crisis for the

next 10 years, the worldwide economic crises will certainly get worse."

Successful in the new economy, organizations

must first offer a vision that goes beyond basic

business requirements and enables people at every

level to create value." — **DAVID DUFFIELD**,

president and CEO, PeopleSoft, Inc.

technological change with what

the 2001 test. "Is this world more

technologically advanced than the

world Stanley Kubrick envisioned in

2001? Mandel retorted, however that in

the 70s and 80s, there was consider-

able technological advancement than

in several years. To get to current

technological levels, there had to be

innovation. Ultimately, the real test

of the New Economy will be the next

test, Krugman added.

rs and Losers

outs who are boosting their sales

with Internet sites are winning

in the New Economy, as are Internet

brokerages who are stealing market share

from old-world investment houses, and

retailers who have eschewed brick and

mortar in favor of Internet commerce

sites. But established companies like

Caterpillar, Eli Lilly, Citigroup and GE

Capital are also winning, using the glob-

alizing power of technology to improve

logistics, boost productivity and find

hidden value in their operations.

"Every day we witness new forms of electronic

commerce, new applications and new gains

in productivity enabled by a networked economy."

— **DR. ERIC SCHMIDT**, chairman and CEO, Novell, Inc.

Perhaps the big-

gest winners in

the short-term will

be companies like

Cisco Systems

which supply

plumbing for the

New Economy.

"The Internet is

going to change every aspect of our

lives," said **John Chambers**, president

and CEO of Cisco Systems. "It's going

to be a fundamental change not seen

since the industrial revolution."

The key to success in the Internet

Economy will be adding value to

products Chambers said. The timing of

technology implementation is equally

important. "If you apply technology too

early, it's a long infrastructure build

and you don't get the best payback,"

he said, "but if you do it too late,

like our competitors did, you'll be at

a competitive disadvantage."

If the New Economy is a boon to

high-tech players and financial service

companies, it will also be a watershed for

hard-goods manufacturers. Under the

helm of chairman and CEO **Donald**

Fites, Caterpillar has retooled into a

high-tech manufacturing powerhouse,

producing machinery on demand and

offering an unprecedented level of

service to its customers.

"In a global economy, it is distribution

that will establish the winners from the

losers," Fites said. "Logistical control is

the heartbeat of the system."

Despite the successes of some players,



"Information is the rocket fuel of today's global economy. Immediate access to vital status data translates into competitive advantage."

— **SCOTT L. WEBSTER**, chairman and CEO, ORBCOMM



"Successful in the new economy, organizations must first offer a vision that goes beyond basic business requirements and enables people at every level to create value." — **DAVID DUFFIELD**, president and CEO, PeopleSoft, Inc.

technological change with what the 2001 test. "Is this world more technologically advanced than the world Stanley Kubrick envisioned in 2001? Mandel retorted, however that in the 70s and 80s, there was considerable technological advancement than in several years. To get to current technological levels, there had to be innovation. Ultimately, the real test of the New Economy will be the next test, Krugman added.

Winners and Losers

outs who are boosting their sales with Internet sites are winning in the New Economy, as are Internet

brokerages who are stealing market share from old-world investment houses, and retailers who have eschewed brick and mortar in favor of Internet commerce sites. But established companies like Caterpillar, Eli Lilly, Citigroup and GE Capital are also winning, using the globalizing power of technology to improve logistics, boost productivity and find hidden value in their operations.

"Every day we witness new forms of electronic commerce, new applications and new gains in productivity enabled by a networked economy."

— **DR. ERIC SCHMIDT**, chairman and CEO, Novell, Inc.



"Missouri's current strong economy has allowed us to move away from creating jobs for jobs' sake and on to attracting the knowledge-based industries that will be the foundation for the economy of the future."

— THE HONORABLE MEL CARNAHAN, Governor of Missouri



the New Economy will still be a bumpy ride for many. As speakers and attendees arrived to the Summit in late September, four news of international currency turmoil and the Year 2000 problem were a reminder of the pitfalls that await many as the New Economy takes hold. Ultimately, the winners in the new economy will be those who harness information to the fullest, always searching for new opportunities to sell or cut costs. Rather than focus on the details of technology, the winners will be those who

figure out how to use their internal and external information in their own interest. As many speakers at the CEO summit have shown, unconventional thinking will be key, and managing and communicating with the workforce will be critical. And while high-tech players will be short-term winners, it's the companies that deal in real goods that have the most to win. "If you're going to start a company today, start a steel mill, not an Internet company," Bloomberg said emphatically. "The economics of it are much simpler."

MANAGING IN THE NEW ECONOMY



RANDALL TOBIAS
former chairman
and CEO, Eli Lilly

When new ideas and information are the key to success, people become the business driver. Companies like Eli Lilly and News America Publishing have seized on managing as a competitive strategy. Efforts to cultivate an atmosphere for creative decision making is having an effect on the bottom line.

"When we sell a pill, the value of what we sell isn't the chemicals that go into the pill, but the intellectual property that goes into making it," said **Randall Tobias**, former chairman and CEO of Eli Lilly. "How companies relate to their employees is changing drastically as a result." Since he took Eli Lilly's helm four years ago, Tobias has leveraged information and creativity for competitive advantage.

The payoff has been a steady stream of products like the venerable Prozac, that have propelled total sales nearly \$8 billion and earnings to record highs.

"The intent of our programs isn't generosity, but reciprocity," Tobias said. "It's a reciprocal bond of loyalty between the employer and the employee." Flexible schedules, control over work flow and easy access to key managers cultivate a communicative and productive atmosphere, while remarkable perks like 68 weeks of maternity leave, on-site child care, and adoption assistance, strengthen the bond between employee and employer.

The payoff can be massive, Lilly has found. "These are not perks but business drivers," he said. "We treat people as assets that appreciate over time...the biggest concern of our employees isn't redundancy but irrelevance."

Creativity takes more than perks, however. Allowing people to make mistakes is equally important for innovation in a New Economy business, some CEOs argue. "You can't have a company that makes creative decisions if the CEO hasn't signed on," said **Anthea Disney**, chairman and CEO of News America Publishing Group. "That means you give employees an opportunity to fail. You have to make sure that they know they can fail."

CEO '98 POLL RESULTS

Results of anonymous polling of delegates at THE ELEVENTH ANNUAL BUSINESS WEEK SUMMIT OF CHIEF EXECUTIVE OFFICERS. Each CEO had access to a keypad and was able to answer each of the seven questions asked during the Summit.

Does the New Economy exist?

No matter what name you put on it, it's clear something in the economy has changed. The world is moving into a New Economy that permits higher growth without inflation and government policy-making should follow.

Agree	9%
Do not agree	1%
Do not know	7%
Total polled	17%

Should Congress boost funding for the IMF?

Congress should approve the full \$18 billion that Treasury Secretary Robert Rubin requested this summer

The IMF is poorly managed and requires new tactics before any more support be provided	2%
--	----

\$18 billion is simply too much	4%
---------------------------------	----

The IMF has seen its day and should be abandoned altogether	2%
---	----

Total polled	4%
--------------	----

Investing in Asia

A surprising number of CEOs continue to see growth in the Asian markets, and many are taking advantage of recent market downturns.

The time is right to expand in Asia	0%
-------------------------------------	----

Current trends act against further expansion in the region	3%
--	----

Total polled	3%
--------------	----

Asia Strategy

Part of our current strategy is to increase the revenues flowing from Asia	1%
--	----

It's too much to expect their Asian Business units to increase revenues considerably	7%
--	----

Total polled	18%
--------------	-----

In-hall polling provided by Meridia, Plymouth Meeting, PA

BusinessWeek
EXECUTIVE PROGRAM

INSURANCE

P R O G N O S I S 1 9 9 9

OUTPUT
BILLIONS OF
'98 DOLLARS

'99
404.11

EMPLOYMENT
MILLIONS OF WORKERS

'94 '99
2.40 2.51

PRODUCTIVITY
THOUSANDS OF '98 DOLLARS
PER EMPLOYEE

'94 '99
157.24 160.31

'98 AND '99 ARE ESTIMATES

DATA: DRIV/McGRAW-HILL

POSITIVES

- Life-insurance firms are poised to do well in 1999 as the demand for retirement products grows
- Consolidation of life-insurance companies will continue, improving their competitive positions

NEGATIVES

- Property and casualty companies face continuing pricing pressures and overcapitalization
- Demand for property and casualty insurance products remains stagnant

ame an industry that's flush with capital but has almost nothing else going for it. The answer? Insurance. "I wish I could say the business is exploding," laments insurance analyst

Berg of CIBC Oppenheimer Corp. in New York. Certain areas are doing very well, the rest of it is

h the property-casualty and the life-insurance sides of less, top-line growth as measured by premiums writ-taken only baby steps over the last few years, in-3% to 4% a year. And there's no evidence suggesting 9 will be any different. Part of the problem is that as been flat while demand is stagnant.

seems to be no relief in sight. The dismal trends in likely continue in 1999, predicts Weston M. Hicks, a research analyst at Sanford C. Bernstein & Co. in k. For the first nine months in 1998, investment in- with for the group was zero, premium growth was

earnings were down 15%. "This that without a lot of premium ment income growth," there will mous pressure on companies in stry to either consolidate or re- in some way," Hicks says. lerwriting losses start to build, ndustry exhausts its reserves, a eckoning is near. "Companies hed a critical point," says Alan rmann of Morgan Stanley Dean if they don't take action to raise some sectors they will see fur- riorating results."

GAINS. There have been some ts due to the strong stock rs of variable-annuity products, ple, jumped as much as 30%. ysts don't expect the gains to Even if they did, variable-an- ducts represent only 5% of the s total earnings, because they thin margins.

ualization is the biggest new he industry. That's when mutual s that have been owned by pol- s, such as Metropolitan Life In- Co., become owned by stock- Since mutual companies write

40% of the industry's premiums and tend not to be as bottom-line-oriented as stock companies, demutualization will eventually be a big positive for the industry, according to analysts. But with all the red tape, it usually takes years.

Despite deflationary times, too much competition, too much capital, and growth only in low-margin businesses, some companies are still poised to do well. Bernstein's Hicks is high on businesses that sell policies by phone or mail directly to the customer, on the theory that they have lower expense ratios and thus higher margins. These include Geico, Progressive, Mercury General, AIG, and the Hartford Group. But on the whole, don't expect insurance companies to move from dullsville to Pleasantville in 1999.

By Debra Sparks in New York

'ANOTHER NAIL IN THE COFFIN'

As if the outlook for 1999 weren't lousy enough for the insurance industry, there's another potential disaster looming: paying out on policies that reimburse companies for the infamous Year 2000 computer problem. "My view is the Year 2000 issue will be another nail in the coffin in the property-and-casualty industry," says analyst Weston M. Hicks of Sanford C. Bernstein in New York.

Property coverage often includes business interruptions. Thus, if a business shuts down for five days because its computers malfunction, companies can lose millions of dollars. How much exposure does the insurance industry have to Y2K problems? "Numbers range from billions

to a trillion dollars," says Edward E. Yardeni, chief economist at Deutsche Bank-Securities Inc. "A lot of people are just waking up to this problem."

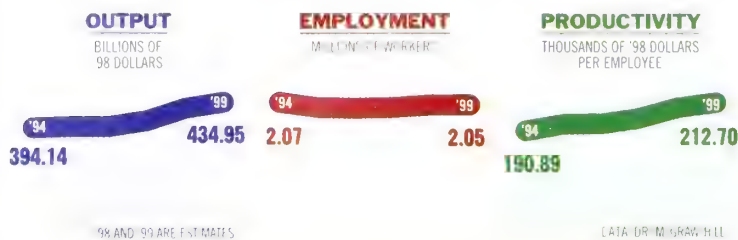
On a positive note, Hicks thinks that the Y2K price tag won't be as high as such former troublemakers as asbestos and environ- mental issues. Combined, these totaled more than \$70 billion in losses for the

insurance industry. And if the Y2K problem does force high payouts, it won't be long before the industry has to raise prices, which could help end the cutthroat pricing. "However, getting from this side of the river to the other in terms of increased pricing could be quite a long and difficult trek," warns Hicks.

FOCUS
Y2K

BANKING

P R O G N O S I S 1 9 9 9



POSITIVES

- The strong economy is boosting volumes, limiting credit losses
- Lower interest rates should revive capital-market activities and help consumers pay their huge consumer debts

NEGATIVES

- Further emerging market and trading are likely and lower rates could squeeze profits
- Year 2000 computer problems could cut profits and lessen benefits of industry mergers

It once was a given: Lower interest rates were good for banks. When rates fall, the thinking went, profits grow—since banks pay less for deposits yet still collect interest from existing

loans and investments. But in today's noninflationary environment, the conventional wisdom has been turned on its head. In 1999, look for falling rates to be bad for banks.

That's because banks are paying so little for deposits that it's hard to believe they can cut rates much further. Currently, according to *Bank Rate Monitor*, a standard money-market account pays about 2.3%, while an interest-bearing checking account yields around 1.3%. With the Federal Reserve lowering rates, analysts suspect that banks will see their margins squeezed as deposit rates stay put and returns on loans and bonds fall. And although fees make up an increasing portion of bank income, most profits still come from interest. "Contrary to popular belief, lower and lower short-term interest rates are not good for deposit-funded banks," says David S. Berry, research director at Keefe, Bruyette & Woods Inc. "It's hard to lower deposit rates in concert with the decline in market rates."

BUG-PROOFING. The resulting pressure on profits will be just one more difficulty in what is likely to be a challenging year for banks. The Fed, after all, cut rates because market turmoil was harming many of the businesses that banks have embraced to reduce their reliance on interest income: fee-generating activities such as underwriting and trading. And if the outlook for those businesses isn't enough of a worry, banks will also face a special task: the expensive job of preparing their computers for the Year 2000.

To be sure, there are reasons to be cheerful about banking. For a start, the domestic economy is robust. Moreover, lending standards seem to be tightening following the blowup in the capital markets. Asset quality also remains good—as long as you overlook credit-card charge-off rates rivaling those of the last recession. And lower interest rates should help customers pay back debts and revive capital markets.

But uncertainties abound. J. P. Mor-

gan & Co.'s announcement that its fourth-quarter earnings would fail to meet expectations raises the specter of more news from trading desks. "We aren't convinced that all the problems have been fully recognized when it comes to the recent turmoil in the emerging markets," says Michael Mayo, bank analyst at Credit Suisse First Boston.

And preparations for 2000 could get hairy. Already, banks are finding that they underestimated testing costs. Still to be determined are the cost of logistics—from running help desks to finding enough trucks to keep ATMs stocked with cash on the big day, says Raymond F. Strecker, vice-president of American Management Systems Inc. of Fairfax, Va., who is already ready for an extraordinary year.

By Gary Silverman in New York

PICK A PARTNER. ANY PARTNER

An ongoing profit squeeze leads to the inevitable conclusion: Banks must cut costs. And the textbook way of doing that is through mergers, like the Citicorp-Travelers team-up, engineered by co-CEOs

Sanford I. Weill and John S. Reed.

This year, analysts have their likely merger scenarios. Charles Peabody, an analyst at Mitchell Securities, for example, looks for Midwestern merger action. But timing gets tricky. Banks tend to announce mergers in the spring. Because mergers take months to close, bankers might not want to do deals that will be



CITI'S WEILL AND REED

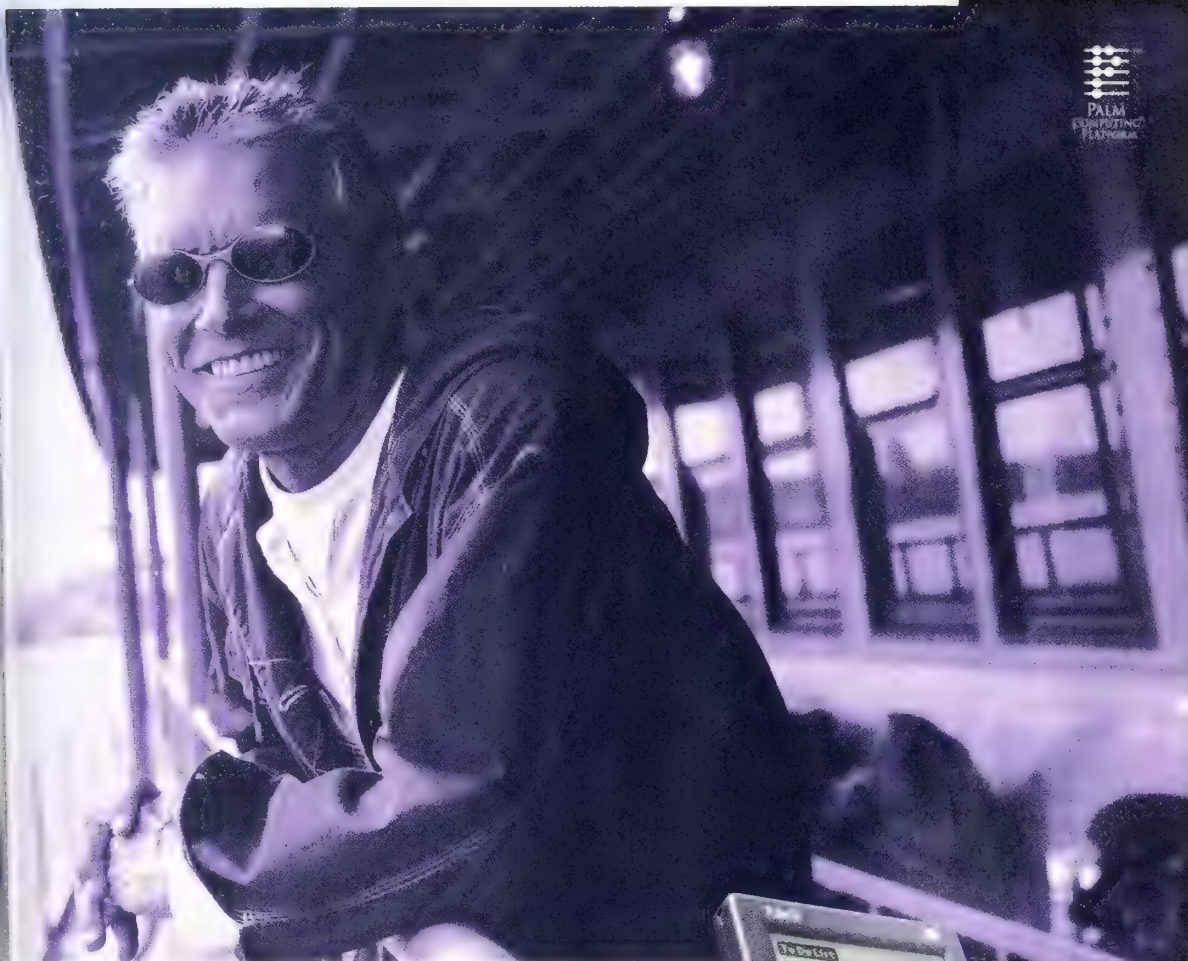
completed around January 2000, for fear of Y2K troubles. "We think consolidation slows significantly in 1999 because of the year 2000 issue," says Michael Mayo, bank analyst at Credit Suisse First Boston.

On the other hand, regulators are prod some banks to merge precisely because they aren't ready for the year 2000. And one given in the merger outlook is a warm welcome from regulators. "The regulatory climate continues

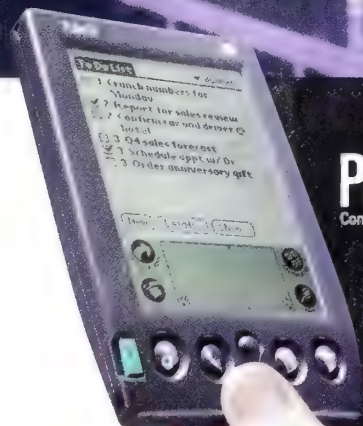
to be very favorable," says Warren Heller of bank-rating firm Veribank. That could be a recipe for fewer mergers by the Year 2000.

FOCUS
MERGER
MANIA

SUCCESS IS A DIRECT RESULT OF AMBITION,
CONNECTIONS, OR A REALLY GOOD TO-DO LIST.



size, categorize, and prioritize everything you need to do. Conquer a goal with each you check. And that's just the to-do list. With the Palm III™ connected organizer, you store thousands of contacts and years of schedules. Even exchange that information k and forth with your PC and our HotSync® technology. So when everything need is right at your fingertips, who needs a corner office? Palm Computing® nected organizers start as low as \$249. To learn more, visit www.palm.com.



Palm III
Connected Organizer



More connected.

LOOK WHO'S SWINGING INTO TOWN!



American Express
Invitational



presented by

BusinessWeek

FEBRUARY 8-14, 1999
TOURNAMENT PLAYERS CLUB
AT PRESTANCIA
SARASOTA, FLORIDA

See SENIOR PGA TOUR pros & baseball legends like Arnold Palmer, Hale Irwin, Lee Trevino, Gil Morgan, Yogi Berra, Jim F. George Brett, and Al Kaline tee it up for a week of exciting golf and special events at the American Express Invitational.

FOR TICKETS & INFORMATION CALL

888-TIX-SPGA
or (888-849-7742)



**Financial
Advisors**



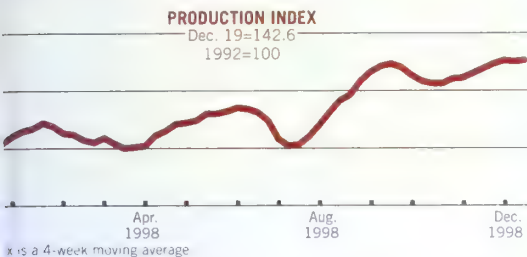
**Deloitte
Consulting**



Business Week Index

PRODUCTION INDEX

e from last week: 0.1%
e from last year: 5.4%



Production index edged up slightly in the week ended Dec. 19. Before the four-week moving average, the index increased to 142.9, from 142.2 in the week ended Dec. 12 and 142.1 in the week of the latest week, all the seasonally adjusted components of the index gained except for rail-freight traffic. The production index has been the last two years to reflect revisions to Federal Reserve data.

Index copyright 1998 by The McGraw-Hill Companies

FINANCIAL INDICATORS

	LATEST WEEK	WEEK AGO	YEARLY % CHG
STOCK INDICES (12/24) S&P 500	1226.27	1188.03	30.9
BOND YIELD, Aaa (12/24)	6.37%	6.18%	-4.8
IMPLY, M2 (12/14) billions	\$4,405.4	\$4,394.4r	9.1
CLAIMS, UNEMPLOYMENT (12/18) thous.	287	300r	-5.9
NEW APPLICATIONS, PURCHASE (12/25)	NA	268.5	NA
NEW APPLICATIONS, REFINANCE (12/25)	NA	1,569.0	NA

Standard & Poor's, Moody's, Federal Reserve, Labor Dept., Mortgage Bankers Assn. (Index: March 16, 1990=100)

INTEREST RATES

	LATEST WEEK	WEEK AGO	YEAR AGO
GOVERNMENT BONDS (12/28)	4.88%	4.63%	6.07%
LIBOR, 3-month (12/28)	5.03	5.00	5.65
LIBOR, 6-month (12/29)	5.20	5.19	5.72
LIBOR, 12-month (12/25)	6.91	6.92	7.23
LIBOR, 30-year (12/25)	5.73	5.80	5.74
LIBOR, 1-year (12/25)	7.75	7.75	8.50

Federal Reserve, HSH Associates, Bloomberg Financial Markets

In the production indicators are seasonally adjusted in computing the BW index (chart); other components (estimated and not listed) include machinery and defense. 1=Western Wood Products Assn. 2=Southern Forest Products Assn. 3=Free market value NA=Not available r=revised NM=Not meaningful

THE WEEK AHEAD

MARKET VEY

Jan. 4, 10 a.m. EST ▶ The National Index of Purchasing Management's index probably increased to 46.8% in December, from 46.8% in November. The McGraw-Hill Companies says the median forecast of surveyed by Standard & Poor's of The McGraw-Hill Companies. The expected increase, a reading suggests that the industrial sector is contracting. Falling foreign hitting U.S. manufacturers.

CONSUMER SPENDING

Jan. 5, 10 a.m. EST ▶ Building outly increased 0.4% in November, 0.3% in both September and

October. The unseasonably warm weather helped to boost activity.

NEW SINGLE-FAMILY HOME SALES

Wednesday, Jan. 6, 10 a.m. EST ▶ New homes probably sold at an annual rate of 858,000 in November, says the S&P MMS survey. That is suggested by a survey of homebuilders. In October, sales rose 0.8%—to 851,000 on an annual basis.

FACTORY INVENTORIES

Thursday, Jan. 7, 10 a.m. EST ▶ Manufacturers likely trimmed their inventories by 0.2% in November, after a large 0.6% gain in October. Factory orders likely rose 0.6%, following a 1.6% plunge in October.

PRODUCTION INDICATORS

	LATEST WEEK	WEEK AGO	YEARLY % CHG
STEEL (12/26) thous. of net tons	NA	1,924#	NA
AUTOS (12/26) units	70,442	129,546r#	76.1
TRUCKS (12/26) units	87,361	156,168r#	61.5
ELECTRIC POWER (12/26) millions of kilowatt-hrs.	NA	65,135#	NA
CRUDE-OIL REFINING (12/26) thous. of bbl./day	NA	14,639#	NA
COAL (12/19) thous. of net tons	NA	23,175	NA
LUMBER (12/19) millions of ft.	489.4#	473.0	4.2
RAIL FREIGHT (12/19) billions of ton-miles	28.0#	28.4	2.2

Sources: American Iron & Steel Institute, Ward's Automotive Reports, Edison Electric Institute, American Petroleum Institute, Energy Dept., WWPAl, SFPAl, Association of American Railroads

PRICES

	LATEST WEEK	WEEK AGO	YEARLY % CHG
GOLD (12/29) \$/troy oz.	286.950	285.800	-1.1
STEEL SCRAP (12/28) #1 heavy, \$/ton	85.50	85.50	-40.4
COPPER (12/25) ¢/lb.	68.6	69.2	-16.1
ALUMINUM (12/25) ¢/lb.	59.5	59.5	-19.6
COTTON (12/25) strict low middling 1-1/16 in., ¢/lb.	59.67	61.85	-7.3
OIL (12/28) \$/bbl.	11.25	10.75	-35.3
CRB FOODSTUFFS (12/28) 1967=100	194.40	188.17	-15.0
CRB RAW INDUSTRIALS (12/28) 1967=100	263.49	266.96	-14.1

Sources: London Wednesday final setting, Chicago market, Metex Week, Memphis market, NYMEX, Commodity Research Bureau

FOREIGN EXCHANGE

	LATEST WEEK	WEEK AGO	YEAR AGO
JAPANESE YEN (12/29)	115.47	115.98	130.57
GERMAN MARK (12/29)	1.67	1.67	1.80
BRITISH POUND (12/29)	1.68	1.68	1.65
FRENCH FRANC (12/29)	5.61	5.61	6.01
ITALIAN LIRA (12/29)	1654.3	1658.3	1768.0
CANADIAN DOLLAR (12/29)	1.55	1.55	1.49
MEXICAN PESO (12/29)	9.870	9.815	8.070
TRADE-WEIGHTED DOLLAR INDEX (12/29)	106.3	106.6	110.0

Sources: Major New York banks. Currencies expressed in units per U.S. dollar, except for British pound in dollars. Trade-weighted dollar via J.P. Morgan

EMPLOYMENT

Friday, Jan. 8, 8:30 a.m. EST ▶ The S&P MMS median forecast calls for a 200,000 gain in nonfarm jobs in December, following an unexpectedly large 267,000 increase in November. Factory payrolls, however, probably shed an additional 25,000 last month, on top of 47,000 lost in November. That would bring the total of factory workers laid off in 1998 to more than 230,000. The unemployment rate is expected to have edged up to 4.5%, from 4.4% in November.

INSTALLMENT CREDIT

Friday, Jan. 8, 3 p.m. EST ▶ Consumer debt likely grew by \$7 billion in November, on top of a huge \$9.7 billion added in October.

Index to Companies

This index gives the starting page for a story or feature with a significant reference to a company. Most subsidiaries are indexed under their own names. Companies listed only in tables are not included.

A

ABC (DIS) 100
Advanced Micro Devices (AMD) 94
Aetna (AET) 88, 108
AIG 147
Airbus Industrie 114
Alaron Trading 106
Alliance Capital Management 104
AlliedSignal (ALD) 67
Amazon.com (AMZN) 10, 70, 154
American Airlines (AMR) 6, 134
American Home Products (AHP) 104
American Honda (HMC) 112
American Management Systems (AMSY) 148
America Online (AOL) 49, 50, 58, 65, 68, 75, 98, 100
Amertech (AIT) 80, 98
AMP (AMP) 67
Andersen (Arthur) 96, 118
Anthem Insurance 108
Apache (APA) 118
Apollo Group (APOL) 84, 132
Apple Computer (AAPL) 50, 58, 63, 94
Applied Materials (AMAT) 94
Arkel International 38
Astra-Zeneca Group 104
Asymetrix 132
AT&T (T) 50, 72, 78, 80, 98, 100
@Home (ATHM) 100
ATI Technologies 66
Avon Products (AVP) 70

B

Banana Republic (GPS) 63
BankAmerica (BAC) 74
BankBoston (BKB) 42
Bankers Trust 8, 80
Barnes & Noble (BKS) 10, 70
Bayer 104
Bay Networks (NT) 75
Bell Atlantic (BEL) 98
BellSouth (BLS) 88, 98
Berkeley Networks 57
Bernstein (Sanford C.) 147
Best Buy (BBY) 46, 76
Biogen (BGEN) 50
Bloomingdale's (FD) 124
BMW 70, 112
Boeing (BA) 41, 57, 70, 114, 124
Boston Scientific (BSX) 50
British Aerospace 114
British Airways (BAB) 134
British Telecommunications (BTI) 98
broadcast.com (BCST) 84
Brooks Sports 83
BT Alex Brown 88
Burlington Northern Santa Fe (BN) 128
Burnham Securities 112

C

Cabletron Systems (CS) 75
Cadbury Schweppes (CSG) 78
Cap Gemini America 96
Capital Group 100
Carlson 64
Carnel Group 100
Carousel Capital 55
Case (CSE) 42
Casio 94

Caterpillar (CAT) 42
CBS (CBS) 57, 74, 100
CBT Group (CBTSY) 132
Cendant (CD) 80
Cephalon (CEPH) 50
Challenger Gray & Christmas 42
Chase Manhattan (CMB) 58, 74, 108
CIBC Oppenheimer 118, 147
Circuit City Stores (CC) 46
Cisco Systems (CSCO) 42, 75
Citigroup (C) 8, 42, 72, 148
CMGI (CMGI) 82
CMS Energy (CMS) 50
Coca-Cola (KO) 42, 78
Coldwell Banker 136
Coltec Industries (COT) 114
Comcast (CMCSK) 100
Compaq Computer (CPQ) 74, 100
CompuSA (CPU) 46
Comsat (CQ) 41
ConAgra (CAG) 126
Conference Board 35
Conoco (COC) 44
Conrail (CRR) 88, 128
Conseco (CNC) 10
Continental Airlines (CALA) 76
Control Data 66
Core Learning Group 132
Cowan 50
Creative Computers (MALL) 57
Credit Suisse First Boston 49, 57, 88, 94, 148
CSX (CSX) 128
Cummins Engine (CUM) 72
Cyrus 94

D

DaimlerChrysler (DCX) 23, 58, 61, 88, 112, 114, 116
Data Broadcasting (DBCC) 57
Dataquest 42, 94, 96
Dell Computer (DELL) 74
Delphi (GM) 112
Delta Air Lines (DAL) 134
DLJ Direct (DLJ) 49
Deutsche Bank 8, 80
DeVry 132
DirectTV (GMH) 100

E

E&Y Leventhal Real Estate 136
EarthLink Network (ELNK) 46
eBay (EBAY) 82
EchoStar Communications (DISH) 100
Edison Project 132
Electronic Arts (ERTS) 6
Eli Lilly (LILY) 104
emachines 46, 94
Encsson (ERICV) 78, 94
Ernst & Young 96
Etoys 154
E*trade (EGRP) 49
Everex 94
Excite (XCIT) 75
Exhibitor Relations 100
Exide (EX) 23
Exxon (XON) 44, 88, 118, 142

F

Fahnestock 44
Federal Express (FDX) 128

Federated Department Stores (FD) 124
Financial Service Analytics 142
Fidelity Investments 49
First Call 41, 42, 94, 112, 118
First Capital 57
Ford (F) 10, 88, 112, 116
Fore Systems (FORE) 57
Forrester Research (FORR) 94, 124, 154
Fox (NWS) 100

G

Gap (GPS) 63, 154
Gartner Group (GART) 96
Geco 147
General Dynamics (GD) 114
General Electric (GE) 41, 42, 64, 100
General Electric PLC 114
General Motors (GM) 23, 42, 76, 88, 112, 116
GeoCities (GCTY) 82
Glaxo Wellcome (GLX) 104
Go 94
Goldman Sachs 49, 142
Goodrich (B.F.) (NOC) 114
Grace (W.R.) (GRA) 45
GTE (GTE) 98

H

Halliburton (HAL) 44
Hambrecht & Quist (HQ) 49
Handspring 94
Hartford Group 147
Hasbro (HAS) 82
Heinz (H.J.) (HNZ) 45
Helix/Mediant Healthcare Group 108
Hewitt Associates 50
Hewlett-Packard (HWP) 68
Hezel & Associates 132
Hoechst 104
Honda (HMC) 112
HSBC Securities 104
Humana (HUM) 108
Hyundai 75

I

I/B/E/S 44
IBM (IBM) 26, 94, 96, 98
Imation (IMN) 46
Immunex (IMNX) 104
IMS Health (RX) 104
ING Barings Furan Selz 128
Intel (INTC) 42, 58, 64, 94
Intellect ASW 94
InterMedia Partners 80
International Data 94, 132
ITT Educational Services 132

J

Jupiter Communications 100

K

Kaiser Permanente 108
Kearney (A.T.) 104
Keefe Bruyette & Woods 148
Kellogg (K) 88, 126
Kia Motors 75
KLM 134
Kmart (KM) 18
Knowledge Universe 132
KPMG Peat Marwick 118

L

Land Lease Real Estate Investments 136
Learning Co. (TLC) 75
Lehman Brothers (LEH) 42, 104
Lexmark International (LXK) 46
Lincoln National (LNC) 38
Littion Industries (LIT) 114
Lockheed Martin (LMT) 41, 114
Long-term Capital Management 6, 8, 74, 142
Los Angeles Dodgers 8
Lucent Technologies (LU) 72
Lufthansa 6
Lyco (LCOS) 82

M

Macy's (FD) 124, 154
Mattel (MAT) 75
Maytag (MYG) 76
McCann-Erickson 100
McDonald Investments 116
McDonald's (MCD) 126
McGraw-Hill (MHP) 136
MCI WorldCom (WCOM) 80, 88, 98, 132
MediaOne Group (UMG) 100
MedPartners (MDM) 108
Mercer Management Consulting 98
Merck (MRK) 104
Mercury General (MCY) 147
Merrill Lynch (MER) 41, 49, 94, 112, 124, 128, 142
Metropolitan Life Insurance 147
MFS Investment Management 42
Micron Electronics (MUEI) 45
Microsoft (MSFT) 8, 26, 58, 62, 65, 68, 72, 75, 78, 94, 100, 132
Miller Brewing (MO) 50
Mitchell Securities 148
Mobil (MOB) 44, 88, 118, 142
Mobile Insights 94
Monsanto (MTC) 75, 104
Morgan (J.P.) (JPM) 49, 78, 148
Morgan Stanley Dean Witter (MWD) 42, 49, 88, 108, 142, 147
Motorola (MOT) 72, 78, 94
Murphy Farms 106

N

National Grid Group 138
National Medical Care (GRA) 45
National Semiconductor (NSM) 94
NationsBank Montgomery Securities (NB) 46, 100, 132
NationsBank (NB) 74
NBC (GE) 100
Netscape Communications (NSCP) 26, 58, 65, 68, 83
New England Electric System (NES) 138
Nextrend 112
Nike (NKE) 42, 83
Nokia 78, 94
Nomura Securities 76
Nordstrom (NOBE) 154
Norfolk Southern (NSC) 88, 128
Nortel (NT) 75
Northern Telecom (NT) 72
Northrop Grumman (NO) 41, 114
Northwest Airlines (NWAC) 6, 76, 134
Novellus Systems (NVLS) 94

O

Old Navy (GPS) 63
Oracle (ORCL) 50, 132
OrbiMed Advisors 104

P

Pacificare Health Systems (PHYSA) 108
PacifiCorp (PCIP) 138
Pacific Telesis (SBC) 80
Packard Bell NEC 46, 94
PaineWebber (PWJ) 42
Parler-Hannifin (PH) 42
PC Data 46
Pearson 72
PeopleSoft (PSFT) 96
PepsiCo (PEP) 76
Pfizer (PFE) 58, 104
Pharmacia & Upjohn (PNU) 104
Phillips Petroleum (P) 118
Phycor (PHYC) 108
Pier 1 Imports (PIR) 124
Piper Jaffray 126
Pixar (PIXR) 58, 63
Pixel Multimedia 6
Polygram (VO) 8, 80
Power (J.D.) 42, 112
Premium Standard Farms 106
PricewaterhouseCoopers 98
PrimeCo Personal Communications 72
PrimeStar 100
Progressive (PGR) 147
Prudential HealthCare 88
Prudential Insurance 108
Prudential Securities 126
Psion 94
Public Utility Holding 138
Purvin & Gertz 118

Q

Qualcomm (QCOM) 94
Quarterdeck Investment Partners 114
Qwest Communications (QWST) 98

R

RCN (RCNC) 50
RECAP 10
Rhône-Poulenc 104
Rifkin & Associates 132
RJR Nabisco (RN) 126
Rolls-Royce 70
Royal Dutch/Shell (RD) 44, 45
Royal Philips Electronics (PHG) 66, 94

S

Salomon Smith Barney (C) 100, 104
S&T OnSite 10
SAP 96
SBC Communications (SBC) 72, 80, 98
Schenck-Plough (SGP) 104
Schroder 112
Schwab (Charles) (SCH) 49, 61, 142
Scottish Power 138
Seagram (VO) 80, 100
Sears (S) 18, 76
Securities Data 142
Select Comfort 49
SG Cowen 104
Simon & Schuster 72
SmithKline Beecham (SBH) 104

Sony (SNE) 62

Southern New England (SBC) 80
Southwest Airlines (LUV) 57
Spacehab (SPAB) 57
Sprint (FON) 98
Standard & Poor's (M) 108
Steel Dynamics (STLD) 108
Sun Microsystems (SL) 65, 68, 83
SunTrust Banks (STI) 108
Sylvan Learning Systems (SLVN) 132
Tandy (TAN) 46, 94
Technomic 126
Tele-Communications (TCOM) 80, 98, 100
Texaco (TX) 10, 42, 44
Texas Instruments (TXI) 108
3Com (COMS) 26, 75
Tiffany (TIF) 124
Time Warner (TWX) 118
Today's Man 124
Toyota (TOYOT) 70, 118
Trend Micro 83
Tribune (TRB) 132
Tropicana (PEP) 78
TRW (TRW) 114
Tussauds Group 72
20th Century Fox (NWS) 108
Tyco International (TYO) 108

U

UAL (UAL) 42
uBid (UBID) 57
Unicom (UCM) 138
Union Pacific (UNP) 118
United Airlines (UAL) 118
United HealthCare (UHC) 118
United Parcel Services (UPS) 118
Universal Health Services 118
Universal Studios (UIS) 118
University of Phoenix (UO) 118
US Airways (U) 58
USA Networks (USAN) 118
US West (USW) 98
USX (X) 88, 116

V

Venator Group (Z) 5
Venban 148
Veronis Suhler 100
Virgin Atlantic 50
Volkswagen 70, 112
Volvo 112
VTECH Holdings 78
Vulcan Ventures 132

W

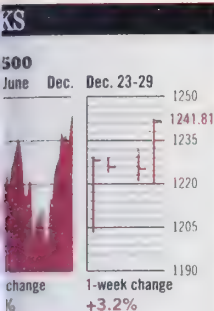
Wal-Mart Stores (WMT) 88, 124
Walt Disney (DIS) 78
Warner Bros. (WB) 108
Warner-Lambert (WLN) 108
Weirton Steel (WS) 108
Wellpoint Health Networks (WLP) 108
Wikofsky Gruen (WIG) 108
Wind Dancer Productions Group 100
Wit Capital 49
WSL Marketing 124

Y Z

Yahoo! (YHOO) 60
Zap!Me! 132
ZD Market Intelligence 132

Business Week (ISSN 0007-7135) published weekly, except for one week in January. August, by The McGraw-Hill Companies, Inc. Executive, Editorial, Circulation, and Advertising departments are located at 1221 Avenue of the Americas, New York, N.Y. 10020. U.S. subscriber rate \$54.95/year. Periodicals postage paid at New York, N.Y., and at additional mailing offices. Postmaster: Send address changes to BUSINESS WEEK, P.O. Box 430, Hightstown, NJ 08520.

Investment Figures of the Week



INTERNET
continued their relentless push, sparked by Internet and the prospects that re deal between the Re- and the White House to be worked out. The res industrial average thin a hair of its Nov. 23 9374, while both the j & Poor's 500-stock in the NASDAQ Composite new records. The tech- NASDAQ has vaulted 39% r, more than twice the rease. Small stocks are story: The S&P small- ex, although up 43% October low, is still 3% for the year.

U.S. MARKETS

	Latest	% change Week	Year
Dow Jones Industrials	9321.0	3.1	19.6
NASDAQ Combined Composite	2181.8	2.9	41.9
S&P MidCap 400	373.4	3.9	14.9
S&P SmallCap 600	171.5	2.7	-3.0
S&P SuperComposite 1500	261.0	3.2	27.4

SECTORS

	Latest	% change Week	Year
Bloomberg Information Age	475.6	3.1	64.5
S&P Financials	132.1	1.8	13.5
S&P Utilities	259.6	0.2	10.9
PSE Technology	445.6	2.2	57.6

FOREIGN MARKETS

	Latest	% change Week	Year
London (FT-SE 100)	5941.5	1.7	16.2
Frankfurt (DAX)	5031.9	4.3	19.9
Tokyo (NIKKEI 225)	13,846.9	0.5	-6.3
Hong Kong (Hang Seng)	10,226.0	-0.9	-2.6
Toronto (TSE 300)	6472.2	1.5	-2.7
Mexico City (IPC)	3916.8	0.5	-23.5

FUNDAMENTALS

	Latest	Week ago	Year ago
S&P 500 Dividend Yield	1.28%	1.28%	1.61%
S&P 500 P/E Ratio (Last 12 mos.)	31.9	31.3	23.6
S&P 500 P/E Ratio (Next 12 mos.)*	24.0	23.5	18.6
First Call Earnings Revision*	-2.98%	-3.00%	-1.76%

TECHNICAL INDICATORS

	Latest	Week ago	Reading
S&P 500 200-day average	1102.8	1099.8	Positive
Stocks above 200-day average	37.0%	35.0%	Positive
Options: Put/call ratio	0.44	0.49	Negative
Insiders: Vickers Sell/buy ratio	1.14	1.14	Positive

Data: Bloomberg Financial Markets; *First Call Corp.

BEST-PERFORMING GROUPS

	Last month %	Last 12 months %
Transportation Services	30.1	Communications Equip. 116.0
Long-Dist. Telecomms.	21.0	Specialty Appar. Retailers 113.3
Health-Care Services	20.6	Genl. Merchandise Chains 90.6
Communications Equip.	18.8	Drug Chains 88.8
Homebuilding	16.7	Computer Systems 85.2

WORST-PERFORMING GROUPS

	Last month %	Last 12 months %
Toys	-24.6	Oil & Gas Drilling -56.9
Metals	-15.3	Oil-Well Equip. & Svcs. -37.6
Gold Mining	-14.1	Oil Exploration & Prod. -31.0
Aerospace & Defense	-13.6	Metals -28.7
Metal & Glass Containers	-11.7	Leisure Time -26.3

BLOOMBERG MONEY FLOW ANALYSIS

Rebound ahead? Stocks with most significant buying on price weakness

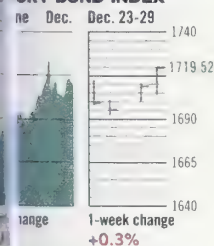
	Price	1-month change
Merck	148	-7 1/8
Exxon	74 1/2	-1/2
Berkshire Hathaway-A	67,600	-300
Motorola	60 1/4	-1 5/8
J.P. Morgan	104 3/16	-2 1/16
Coca-Cola	68 7/8	-1 3/16

Decline ahead? Stocks with most significant selling on price strength

	Price	1-month change
Cisco Systems	94 3/16	18 1/16
Microsoft	142 3/8	20 3/8
MCI WorldCom	71 15/16	12 15/16
Dell Computer	74 3/4	13 15/16
Sun Microsystems	85	10 15/16
CMGI	131 1/2	54

BEST RATES

TREASURY BOND INDEX



Bloomberg Financial Markets

KEY RATES

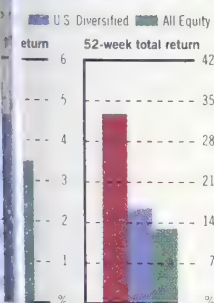
	Latest week %	Week ago %	Year ago %
MONEY MARKET FUNDS	4.75	4.75	5.25
90-DAY TREASURY BILLS	4.57	4.52	5.38
6-MONTH BANK CDS	4.38	4.38	5.21
1-YEAR TREASURY BILLS	4.61	4.55	5.52
10-YEAR TREASURY NOTES	4.68	4.70	5.76
30-YEAR TREASURY BONDS	5.10	5.14	5.92
LONG-TERM AA INDUSTRIALS	6.11	6.15	6.55
LONG-TERM BBB INDUSTRIALS	6.94	6.99	6.88
LONG-TERM AA TELEPHONES	6.46	6.49	6.89

BLOOMBERG MUNI YIELD EQUIVALENTS

Taxable equivalent yields on AAA-rated, tax-exempt municipal bonds, assuming a 31% federal tax rate.

	10-yr. bond Latest week	Last week	30-yr. bond Latest week	Last week
GENERAL OBLIGATIONS	4.15%	4.15%	4.87%	4.87%
PERCENT OF TREASURIES	88.65	88.31	95.38	94.77
TAXABLE EQUIVALENT	6.01	6.01	7.06	7.06
INSURED REVENUE BONDS	4.30	4.30	5.13	5.13
PERCENT OF TREASURIES	91.85	91.50	100.47	99.83
TAXABLE EQUIVALENT	6.23	6.23	7.43	7.43

FUND FUND



EQUITY FUNDS

Leaders	Laggards
Four-week total return %	Four-week total return %
Millennium Growth 35.5	ProFunds UltraShort OTC Inv. -28.9
ProFunds UltraOTC Service 34.6	American Heritage -25.0
Matthews Korea A 32.0	Montgomery Latin America R -18.4
Amerindo Technology D 30.7	FPA Paramount -15.7
WWW Internet 30.1	Potomac OTC/Short -15.6
Leaders	Laggards
52-week total return %	52-week total return %
ProFunds UltraOTC Investor 202.2	Lexington Troika Russia -82.2
Amerindo Technology D 113.9	American Heritage -63.7
Fidelity Select Computers 107.2	Potomac OTC/Short -55.5
Dreyfus Technology Growth 106.3	State St. Res. Glob. Res. C -49.6
Rydex OTC Investor 93.8	Montgomery Latin America R -49.5

EQUITY FUND CATEGORIES

Leaders	Laggards
Four-week total return %	Four-week total return %
Technology 15.5	Latin America -9.0
Communications 13.2	Precious Metals -5.6
Large-cap Growth 9.3	Natural Resources -4.1
Mid-cap Growth 8.8	Real Estate -3.0
Small-cap Growth 6.0	Diversified Emerging Mkts. -1.6
Leaders	Laggards
52-week total return %	52-week total return %
Technology 53.3	Latin America -35.8
Communications 47.1	Diversified Emerging Mkts. -25.2
Large-cap Growth 40.0	Natural Resources -23.5
Large-cap Blend 25.6	Real Estate -16.3
Health 21.7	Precious Metals -15.1

of market close Tuesday, Dec. 29, 1998, unless otherwise indicated. Industry groups 30 companies only. Fundamentals, technical indicators, Bloomberg money flow analy-

sis, and mutual fund returns are as of Dec. 28. For a more detailed explanation, write to us or E-mail figures@businessweek.com. NA=Not available **Vanguard Index 500 Fund

CAN THE ECONOMY KEEP DODGING BULLETS?

It was a year of paradoxes and contradictions: In 1998, global financial markets started to melt down, but the U.S. economy kept humming. Profits weakened, but the stock market staged an impressive recovery. Personal savings dwindled to nothing, yet consumers felt flush and kept spending. President Clinton was impeached by the House of Representatives, and the markets shrugged. Yet there is an underlying logic to economic events in 1998, and to how they are likely to play out in 1999.

Last year's recessions across Asia, followed by the summer's parade of financial crises from Russia to Brazil, were worrisome. Experts feared the U.S. wouldn't emerge unscathed and would surely begin to feel the pain of plunging foreign sales and jittery markets. Instead, the U.S. was *terra firma*, bulwarked against the stormy seas. Well-timed easing by the Federal Reserve helped, but more important was the economy's inherent strength. Unemployment was low, inflation tame, and productivity growth strong. Output grew about 3.5%, following two equally stellar years.

There's no guarantee that growth rate can be sustained, of course. A BUSINESS WEEK poll of executives for this year's Industry Outlook suggests that a greater percentage are pessimistic than were pessimistic a year ago (page 88). Growth in capital spending is slowing down. But with pricing power constrained and companies embarking on cost-cutting programs, productivity gains should be respectable in 1999. The U.S. economy could yet beat the consensus projection of 2% growth this year.

The profits picture is similarly understandable on closer inspection. Last year, profits were dented by one-time write-offs and other potholes in the road. Yet the stock market managed to rally in the year's final months. Again, the Fed played a role. Then, too, the longer-term prospects for some companies—especially some Internet companies—drove those stocks

all the way to the stratosphere. Given a sufficiently high view, who knows? Maybe these companies will prove it.

As 1999 progresses, year-over-year profit comparisons for all companies should look better. At the same time, though, the earnings estimates that analysts put out—they've averaged a rise of 17% this year—may be reduced. Do not be worried. In the world of earnings reports and analyst estimates, it's common for analysts to play an expectations game.

The apparent profligacy of the American public isn't what it seems at first blush, either. Yes, the reported savings rate dipped below zero for a couple of months in 1998; this did not signal a descent into financial irresponsibility. The savings rate is a faulty measure that fails to capture the gains and the benefits of mortgage refinancing. The market's huge rewards, as well as home-price appreciation, have padded wealth to a phenomenal degree in the 1990s. It turns out people didn't even need that cushion. Total household and salary gains, not adjusted for inflation, grew 10% in 1998, outpacing the 5.5% gain in consumer spending.

Finally, there's the dissonance between Washington and Wall Street. Again, it's not surprising if you think about it. For one thing, investors figure that reason will eventually prevail, with some sort of deal that spares the nation from a drawn-out trial of President Clinton. More fundamentally, market participants probably know better than to worry much about Clinton's fate. If Alan Greenspan were impeached—now that would be reason for concern.

The most immediate items on Washington's economic agenda—health care and Social Security reform—will be put off while the Senate deals with impeachment. Given the furious debate that is likely to erupt over these issues, it might not be such a bad idea. That way, Congress and the courts may be able to better judge the economy's strength. If things have been going well, they might just be surprised.

E-COMMERCE: IT'S CLICKING

Marketing hoopla aside, 1998 will be remembered as the year E-commerce went mainstream. But Internet selling's apparent success—estimates range from \$2 billion to as high as \$5 billion for the holiday season—should not come as a surprise. Indeed, the groundwork had been laid all year. And despite some glitches, odds are that growth will keep climbing, with total sales to consumers expected to top \$18 billion for all of 1999, according to Forrester Research Inc., up from \$7.8 billion this year. By 2003, Forrester says, sales could reach \$108 billion, accounting for 6% of consumer retail spending. And those are conservative estimates.

Three things happened last year to give E-commerce a huge boost. First, more households bought cheap PCs and came online. Second, more big-name retailers, such as Gap,

Macy's, and Nordstrom, expanded or put up new e-commerce sites, supplementing pioneers such as Amazon.com and giving customers a much wider selection of goods. Finally, e-commerce was dramatically improved over the course of the year, making Net shopping far easier. So—click!—it all came together at Christmas. There were, to be sure, problems. Some servers were unable to handle the load. A few sites couldn't quite supply the goods to keep up with demand. But Internet retailers such as eToys and Amazon tried to create goodwill with gift certificates and information about the problems. If first-time customers had a poor experience, it could be some time before they dip a toe in the water again. But for those who had a pleasant experience turning back. Nothing beats the convenience of E-commerce.

MALL BUSINESS

5 A SPRINT TO THE MAILBOX

IN BOXER SHORTS:



NO RISK, NO REWARD.

Success as an entrepreneur requires the

ingness to take them. Your insurance should
come from a company that understands that.

LICENSE TO GET ON WITH IT.™





Library 18

3 9042 04589668 2

BusinessWeek

18, 1999 / A PUBLICATION OF THE MCGRAW-HILL COMPANIES

\$3.95

Euro
e, it's
-and it
s the game



ne
ailing
oppers

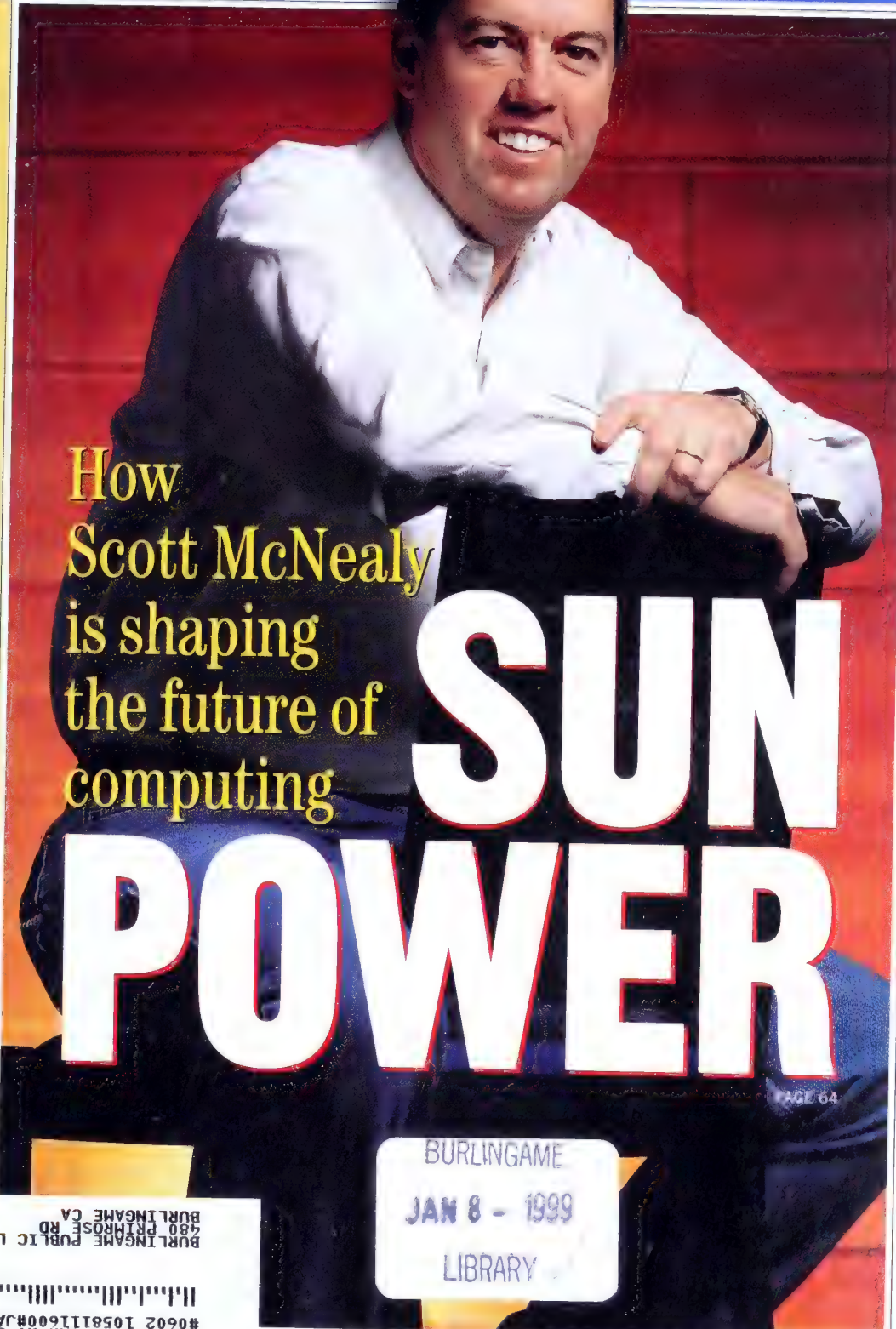


ual
ds
Taking
advantage
of index
investing

licine
g
D
S



0104-04010
BURLINGAME PUBLIC LIBRARY
480 PRIMROSE RD
BURLINGAME CA
#BXBGDD**CAR-RT-SORT**
#0602 105811600#JAN00 102
C030 0188



How
Scott McNealy
is shaping
the future of
computing

SUN POWER

PAGE 64

BURLINGAME
JAN 8 - 1999
LIBRARY

DA VINCI DIDN'T MESS WITH THE MONA LISA BEETHOVEN DIDN'T FUDGE WITH HIS 5TH SYMPHONY SLACKERS



Sure, da Vinci's "Mona Lisa" is one of the world's most beautiful paintings. And, yes, Beethoven's 5th is nothing short of a musical masterpiece. But just think how much better they could have been.

If those guys had really high standards.

Introducing the newly redesigned Infiniti[®] Q45t for 1999. The thinking behind it: Why stop at great?

Why not give it a new grille bookended with aerodynamic Xenon front headlights that cut through

the wind as well as the dark? Make its shape more aggressive. Fit it with low-profile, 225/50R17 tires that grip the road and 5-spoke 17" alloy wheels, so they look good doing it.

But like most sticklers for excellence, Infiniti couldn't stop there. We wondered how its interior could be even more luxurious (if at all possible). The answer? Standard amenities include a power-operated rear-window sunshade



's glare and help keep cabin temperatures more
A one-touch power sliding glass sunroof. And a
sh that holds the signature Infiniti quartz clock.

ould go on and on.

An electronically
suspension allows
ose between two

es: *Sport*, for tighter, more responsive handling,
Automatic, for a velvety, sophisticated ride. Head and

chest side-impact supplemental air bags were added that,
when deployed, enhance the area of protection for the driver
and passenger. And the crowning touch: We made these, and

a host of other advancements,
standard as well. Let them be
options on other cars.

The new Infiniti Q45t.

The product of inspired craftsmen who also double as metic-
ulous perfectionists. Unlike a couple of people we know of.



INFINITI. OWN ONE AND YOU'LL UNDERSTAND.

www.infiniti-usa.com / 800-499-5900

© 1998 Infiniti Division of Nissan Motor Corporation U.S.A.

AT WHAT POINT WILL YOU TRY
TO THE INTERN



FOR BUSINESS

Welcome to VPN Advantage,SM the next generation virtual private networking service from GTE Internetworking. Anyone struggling to balance a teetering array of business communications needs will now find the Internet a safer, more cost-effective and comfortable place to do business. A place unfettered by staff or budget limitations, thanks to one of the world's largest, fastest and most rigorously engineered backbone networks. End-to-end encryption and non-stop monitoring assure you of the highest level of security commercially available. Over 600 US Points of Presence as well as global access deliver the superior performance and reach your company needs. To further ease your mind, our Proactive Service Guarantees stand as the ultimate safety net. The Internet is not to be feared. It's to be used. Let the architects of the Internet show you the way.

www.internetworking.gte.com or 800.472.4565



INTERNETWORKING

POWERED BY BBNSM

COVER STORY

SUN POWER

Computing, communications, even consumer electronics—everything is getting pulled into Sun's orbit page 64

BusinessWeek

JANUARY 18, 1999



CUSTOM DRUGS
Genetic tailoring could revolutionize medicine page



Cover Story

64 SUN POWER

Suddenly, the maker of whizzy workstations is the toast of techdom. Whether it's the company's fresh deal with AOL, Java's snowballing popularity, Sun's leading role in the antitrust case against Microsoft, or simply outpacing nearly all rivals, Scott McNealy & Co. have finally reached the top tier of the computer industry

72 DREAMS OF JINI

Sun aims to break Windows with its new Java-based technology

News, Analysis & Commentary

34 THE EURO: WE HAVE LIFTOFF!

The currency's strong launch is hailed around the world. But if it soars too high, it could clobber Europe

36 EUROSKEPTICS

Britain and other holdouts will be watching—and pondering their options

36 COMMENTARY: THE EURO

The currency is sure to steal some of the dollar's limelight

38 A CELL PHONE IN EVERY POCKET

The ferocious bidding for AirTouch reflects the explosive growth in wireless calling both here and abroad

40 THE ONLINE SHOPPING BOOM

'Twas the season for E-splurging. But can cyber sales stay hot—and can profits catch up with sales?

43 PRICELINE'S PROMISE

The name-your-own-price shopping site is preparing an IPO, but how broad will its appeal be?

43 COMMENTARY: NBA DEAL

Everyone—but especially owners—came out ahead in the 11th-hour agreement that salvaged a basketball season

44 MICROSOFT'S BEST DEFENSE?

The software giant will make the case that it fails one critical test for a monopoly

46 THE MOTOR CITY GOSSIP MILL

A blizzard of merger rumors enlivened the snowbound Detroit Auto Show

50 COMMENTARY: THE PRESIDENT

Censure means having to say you're sorry—but how? Here are some options

52 IN BUSINESS THIS WEEK

International Business

56 JAPAN

So far, '99 looks a lot like '98: government's rescue efforts worsen the economic disaster

58 COMMENTARY: HONG KONG

How the property tycoons are shaking the city

60 DEALS

As multinationals snap up assets, America modernizes

62 INTERNATIONAL OUTLOOK

Japan's Premier Obuchi is a reformer—but is he a real reformer?

Economic Analysis

26 ECONOMIC VIEWPOINT

Barro: If economists can't agree on a surplus, will Congress be able to?

30 ECONOMIC TRENDS

Tax riddles, the hefty budget, parental-leave policies

31 BUSINESS OUTLOOK

The construction industry is keep hammering away in the so hard

E-SPREE

Net shoppers splurged this season page 40



BLAST OFF!
The Continent is giddy over the euro's strong start page 41

PIONEER

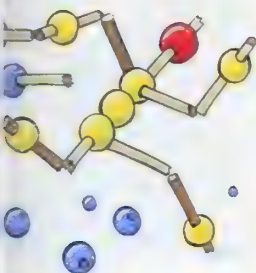
Index funds are sizzling—and so is Vanguard page 82



FREE, HUH?
A lot of mileage deals are dogs. Which ones rate? page 100

UNCIVIL WAR

The Andersen squabbling may be nearing an unpleasant end page 100



ment

TON OUTLOOK

acklash against China is

ment

TARY: ENDANGERED SPECIES

is all stick and no carrot

Business

GUES OF THEIR OWN

men's professional leagues are
oing nowhere

ODER'S CRUSADE

spaper mogul is fighting Silicon
y investing in it

OFF: TRACK BETTING ON TV

e that at-home fans will show

ge

WHY THEY CALL IT VANGUARD

ored index funds—and now it's
g its rivals as investors pour
to its funds

86 WHERE THE DOUGH REALLY RISES

Funds leveraging indexes like the
NASDAQ deliver big profits—and pain

88 DAY TRADING'S DAY OF RECKONING?

Regulators are cracking down on dozens
of firms

92 INSIDE WALL STREET

113 INVESTMENT FIGURES OF THE WEEK

Entertainment

94 LARRY FLYNT'S LATEST HUSTLE

The publisher of *Hustler* needs to
boost revenue, and Sexgate just might
do the trick

Science & Technology

97 DEVELOPMENTS TO WATCH

Chips hit the speed of light, ultrasound
scopes out materials, Y2K: the bug that
couldn't wait, flat speakers

98 THIS DRUG'S FOR YOU

Mapping patients' genes could lead to
safer treatments and lower development
costs for drugmakers

The Corporation

100 SPLITSVILLE AT ANDERSEN

What a divorce will cost Andersen
Consulting

102 BEAN-COUNTING TAKES A BACKSEAT

Arthur Andersen shifts to consulting

Personal Business

104 TRAVEL: Frequent fliers, beware

TRAVEL: Airline alliances and you

INVESTING: Index funds beat the gurus

INVESTING: Slicing and dicing the S&P

Features

6 UP FRONT

10 READERS REPORT

11 CORRECTIONS & CLARIFICATIONS

18 BOOKS

McDougal: *The Last Mogul*

22 TECHNOLOGY & YOU

111 BUSINESS WEEK INDEX

112 INDEX TO COMPANIES

114 EDITORIALS

BusinessWeek **ONLINE**

www.businessweek.com
America Online: Keyword: BW

Up Front

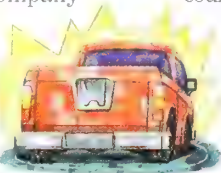
EDITED BY ROBERT McNATT

CAR TALK

HONDA COULD USE A LITTLE PICKUP

FINALLY, HONDA MAY GET serious about filling the missing link in its U.S. product line. Although the company sold more than 1 million vehicles in the U.S. in 1998 and the Accord was its best-selling single model here, Honda has always trailed import rival Toyota in total sales. It lacks a line of hot-selling pickup trucks that can compete with Toyota's Tacoma and upcoming full-size Tundra, let alone Ford and Chevy trucks.

That may be about to change. Says Thomas Elliott, executive vice-president of American Honda: "If Honda



is going to grow, Honda is going to have to address the pickup situation." Although Elliott won't say flat out that Honda is ready to build pickups, it's clear the company is leaning that way. And analysts predict that Honda could have a pickup for sale here in less than two years.

But entering the market will be expensive, not the least because Honda will have to learn some new engineering tricks. A specialist in front-wheel-drive cars, it would have to begin building rear-wheel-drive vehicles. Most likely, it would also start with small trucks rather than the popular V-8s. Still, with its track record, no one is underestimating a new Honda truck. *Larry Armstrong*

INK BY THE BARREL

PURCHASE OR PERISH?



WILLES: *Buying and cutting*

HERE'S A NOVEL WAY TO judge the performance of publishing and information giants: Count the acquisitions. In studying 29 media biggies between 1992 and 1997, Andersen Consulting found that those whose stock rose the most averaged 31 acquisitions. The laggards averaged only three.

According to Andersen, leading the pack was Dutch

publisher VNU, which puts out *Billboard* and *The Hollywood Reporter* in the U.S. and which made about 60 acquisitions en route to a compound average annual return of 48%. The top U.S. companies included book publisher John Wiley, magazine group Meredith, and newspaper publisher Times Mirror, which had a 28% return with 27 small acquisitions—although the cost-cutting of CEO Mark Willes may have helped. "There's always exceptions, but there's a clear correlation" between deal flow and stock performance, says Andersen's David Brodwin.

Not all agree. A media banker who asked not to be identified says that the most acquisitive companies weren't the best performers when measured by benchmarks like operating cash-flow growth. Either way, how many publishers have time to read studies when they are so busy buying companies? *Richard Siklos*

TALK SHOW "They're acting like this is a high school. They flunked the exam in their body. They hope to do a make-up case in the Senate?"

—Senator Patrick Leahy (D-Vt.) on House Republicans

MONICAGATE

LEAVE GOP BASHING TO THE GOP

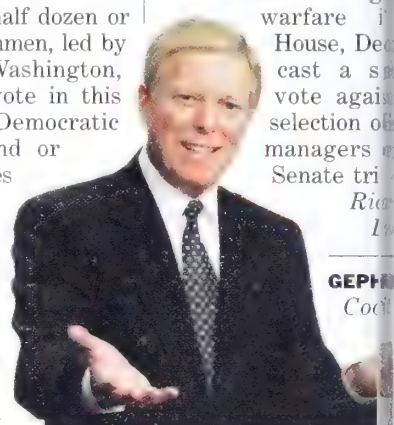
WITH A CIVIL WAR ERUPTING among Capitol Hill Republicans over the future of the impeachment proceedings, many Democratic operatives are enjoying the spectacle.

The chaos, however, came perilously close to enveloping House Democrats in early January. That's when an angry group of a half dozen or so incoming freshmen, led by Jay Inslee of Washington, agitated for a vote in this year's more Democratic House to rescind or modify the articles of impeachment. The idea was to put incumbent pro-impeachment GOP moderates and freshmen Republicans on the hot seat by forcing them

to revisit December's unpopular vote to impeach.

But during a closed-door meeting on Jan. 5, House Minority Leader Richard Gephardt persuaded the hothouse Democrats to hold off. His reasoning: "The temptation was to create mischief, but heads prevailed," said Gephardt. "The senior Democratic staff instead of going to war."

House, Dec. 1998. Gephardt cast a speech vote against selection of managers to prosecute the Senate trial. *Rick L.*



GEPHARDT: *Cool*

DRIVING AMBITIONS

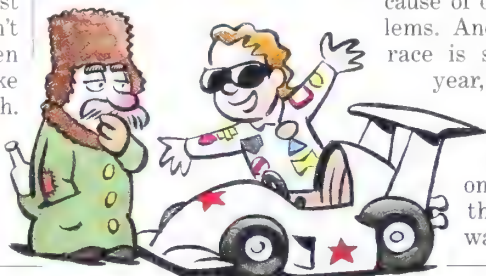
RAGERS, MAKE VROOM FOR RUSSIA

RUSSIA IS SUFFERING ITS worst economic malaise in decades. So what better way to lift spirits than a glamorous Formula One race?

It may sound improbable. But if depressed U.S. cities can build expensive sports venues, the Russians figure they can, too. So with the blessing of Russian Prime Minister Yevgeny Primakov, the town fathers of Tula, a run-down industrial city 100 miles south of Moscow, are

seeking more than \$50 million in private funds to build a world-class Formula One circuit by 2002. Radicals, however, have awarded new races to Malaysia and China. Only 18 races each year, there may not be room for a series even if Tula does with the moolah.

Then there's the issue of ticket sales. With the hocking icons and stars just to put borschtch on the table, who can afford tickets? But Tula will hope. The Grand Prix, set for 1999, has been put off until next year because of organizational problems. And while the race is scheduled for next year, its economy is in ruins. So what's the Russia? "They may not be on the table, but they're sure to watch." *Lee V.*



All together now.



Corepoint Customer Relationship Management Software.

The only complete, end-to-end software solution that helps you select, acquire, manage and grow profitable enduring customer relationships.

Nothing compares to Corepoint because it works at every point of customer contact. It helps your company communicate and share customer information better at every level. And it works the way the world works today — over the phone, fax, email or Internet. So you can maximize revenue by serving customers where, when and how they want.

Select the Corepoint products you need right now or transform your entire company with the complete product suite. Choose from Corepoint Sales and Marketing Products, Service and Support Products, Relationship Management Products, Universal Access Products, Enterprise Connection Products and Foundation Products.

Look to Corepoint for a complete, end-to-end customer relationship management solution from a company you know and trust. For more information, visit our website at www.corepoint.com or call 877-891-1606

Register now for our special
telephone seminar on "Defining
Customer Relationship Management."
Visit our website or call today.

Corepoint
An IBM company

Turning customer satisfaction into loyalty.

© 1998 International Business Machines Corporation
Corepoint is a trademark of International Business Machines
Corporation in the United States and/or other countries

12

WE HAD AN
IDEA SO GOOD,
IT MADE A MILLION
LIGHTBULBS GO ON.



HOW TEXACO HELPS LIGHT THE GREATER SEATTLE AREA.

Bright lights filling dark rainy days. Coffee bars percolating around the clock. If any place needs electricity, it's the Greater Seattle Area.

And Texaco keeps the power flowing. We've figured out how to take the same natural gas that generates heat for oil refining and use it to produce over 145,000,000 watts of electricity. In fact, Texaco plays a part in

providing over 800,000 area homes and businesses with the power they depend on.

We're doing the same around the globe, supplying large cities and small villages with reliable and environmentally friendly electricity. Because as long as the world needs the energy to keep running, we'll relentlessly pursue ways to find it.

At Texaco, we've got a lot of bright ideas.



A WORLD OF ENERGY.

EDITOR-IN-CHIEF: Stephen B. Shepard
MANAGING EDITOR: Mark Morrison
CHIEF ECONOMIST: William Wolman
ASSISTANT MANAGING EDITORS:
 Sarah Bartlett, Robert J. Dowling, G. David Wallace
ART DIRECTOR: Malcolm Frouman
CHIEF OF CORRESPONDENTS: James E. Ellis
SENIOR EDITORS: Bob Arnold (New Media), Frank J. Comes, William Glasgal, Rick Green (Enterprise), Geoff Lewis, Paul Raeburn, Kathy Rebbello, Jane A. Sarsene, Ciro Scotti, Lee Walczak (Washington), Elizabeth Weiner, Chris Welles, Seymour Zucker
EDITORIAL PAGE EDITOR: Bruce Nussbaum
SENIOR WRITERS: Robert Barker, Anthony Bianco, John A. Byrne, Jeffrey M. Laderman, Gene G. Marcial, Karen Pennar, Otis Port, Gary Weiss
ECONOMICS: James G. Cooper (Sr. Economist/Bus. Outlook ed.), Kathleen Madigan, Michael J. Mandel (Economics ed.), Peter Coy (Gene Koretz (Trends ed.), Christopher Farrell (Contributing ed.)
INTERNATIONAL: Christopher Power (Asian Edition ed.); Rose Brady (European Edition ed.); Duane E. Anderson, Pete Engardio, Joan Warner (Sr. news eds.); John Templeman (Political affairs); Sheri Prasso (Asia); John Pearson (Latin America)
ASSOCIATE EDITORS: Catherine Arnt, Aaron Bernstein, Dan Beckue, Amy Dunkin, Neil Gross, Keith H. Hammonds, Kelley Holland, Larry Light, Ira Sager, Leah Nathans Spiro, Fred Strasser, Pat Wechsler
PICTURE EDITOR: Lawrence Lippmann
SENIOR ART DIRECTOR: Francesca Messina
DEPARTMENT EDITORS: Books: Hardy Green Corporate Finance: Debra Sparks Corporations: Nanette Byrnes Enterprise: Robin D. Schatz Legal Affairs: Mike France Management: Jennifer Reingold Marketing: Ellen Neuborne Media: Richard Siklos Money & Banking: Gary Silverman People: Eric Schine Personal Business: Edward C. Baig Personal Finance: Todd Gutner Scoreboards: Frederick F. Jespersen Technology Strategies: Marcia Stepanek Telecommunications: Peter Elstrom Up Front: Robert McNatt
STAFF EDITORS: Heather Green, Ellen Lucking, Joan Oleck, Edith Updike
COPY EDITORS: Prudence Crowther, Harry Maurer (Deputy chiefs), Marc Miller, Jim Taibi (Asst. chiefs), Tim Belknap, Aleta Davies, Jack Robbins, Doug Royalty (Sr.), Giles Blunt, Joseph Mandel, Anne Newman, David Pengilly, Malka Percal, Lourdes Valeriano Researchers: Maria Chapin, Gail Fowler, Aida Rosario, Oluwabusimi Shabi
PRODUCTION COPY EDITORS: Lawrence Dark (Chief), Celine Keating (Deputy chief), Hallberg Hallmundsson, B. Kite, Robert S. Norman, Robert J. Rosenberg, Victoria Rubin
ART: Jay Petrow, Steven Taylor (Deputy dirs.); Don Besom, Alice Cheung, Richard Demler, Andree Kahlmorgen, Christine Silver (Assoc.); Peter Marshutz (Asst.) Graphics & New Media: Arthur Eves (Creative dir.); Joan Danaher (Graphics dir.), Rob Doyle (Assoc.); Jaime Beauchamp, Alan Baseler, Lisa Knouse Braman, Alberto Mena, Ray Yella (Illustrators); Eric Hoffmann Imaging: Annette Farrell (Mgr.), Alan Bomzer (Asst.), Leo Nietzer, Joseph Rhames
PHOTO EDITORS: Scott Mlyn (Deputy); Ronnie Weil (Sr.), Michael Hirsch, Anne Murray, Andrew Popper (Assoc.), Bettina Baudoin, Kathleen Moore (Asst.) M. Margarita Erro, Sarah Greenberg Morse (Researcher)
EDITORIAL OPERATIONS: Yvonne F. Rodriguez (Director), Wally Baudin, Nicholas M. White (Mgrs.), Karen Butcher, Francisco Cardoza, Thomas R. Dowd, Nancy Gores, Stephen R. Lebron, Jody A. LoGrasso, Jose L. Martin, Peter K. Niceberg, Jane M. Perkins, Laura Reissman, Karen Turck, Ise V. Walton, Barbara Wilhelm Morgan C. Pearson, Guillermo Ortiz
EDITORIAL TECHNOLOGY: Thomas L. Donald (Director); Christopher Amado, Richard Balestrino, David Bandner, Lawrence Crowe, Beth Higgins, James Kutz, Neil MacLeod, John Navarro, Juan Rodriguez, Marta Skrelja, Mauro
BUSINESS WEEK ONLINE: Michael Mercurio (Managing ed.), A. Peter Clem, John A. Dierdorff, John Johnsrud, Dennis K. Berman, Stefani Eads, Nadav Enbar, Paul Eng, Julia Lichtblau, Jeremy Quittner, Diane Young
CORRESPONDENTS: Atlanta: Dean Foust (Mgr.) Boston: William C. Symonds (Mgr.) Paul C. Judge, Geoffrey Smith Chicago: Richard A. Melcher (Mgr.) Roger O. Crockett, David Leonhardt, Andrew Osterland, DeAnn Weimer Cleveland: Peter Galuszka (Mgr.) Connecticut: Diane Brady (Mgr.) Dallas: Wendy Zellner (Mgr.), Stephanie Anderson Forest, Detroit: Kathleen Kerwin (Mgr.), John Muller, Keith Naughton Los Angeles: Ronald Grover (Mgr.), Larry Armstrong (Sr. correspondent), Steven V. Brull, Kathleen Morris Philadelphia: Amy Barrett (Mgr.) San Francisco: Linda Himelein (Mgr.), Peter Burrows, Steve Hamm, Robert D. Hof, Andy Reinhardt Washington: Owen Ullmann (Sr. writer), Paula Dwyer, Douglas Harbicht (News eds.), John Carey, Howard Gleckman (Sr. correspondents), Amy Burris, Stan Crock, Richard S. Dunham, Susan B. Garland, Paul Magnuson, Mike McNamee, Stephen H. Wildstrom (Tech & You), Lorraine Woelert, Catherine Yang Beijing: Dexter Roberts (Mgr.) Bombay: Manjot Kripalani (Mgr.) Frankfurt: Thane Peterson (Mgr.), Karen Lowry Miller Hong Kong: Joyce Barnathan (Mgr.), Mark L. Clifford, Bruce Einhorn London: Stanley Reed (Mgr.), Kerry Capell, Julia Flynn Mexico City: Geri Smith (Mgr.) Moscow: Patricia Kranz (Mgr.) Paris: Gail Edmondson (Mgr.), Stephen Baker Rome: John Rossant (Mgr.) São Paulo: Ian Katz (Mgr.) Singapore: Michael Shari (Mgr.) Tokyo: Brian Brenner (Mgr.), Robert Neff (Contributing ed.), Irene M. Kunitz, Emily Thornton Toronto: Joseph Weber (Mgr.)
EDITORIAL SERVICES: Broadcasting: Ray Hoffman Business Manager: Barbara Brynion Information Services: Jamie B. Russell (Director), Karen Steiner (Mgr.), Judi Grove, Susan Cusner, Debra Dreskin, Fred Katzenberg, Robert Rooker, Susan Rutledge, Barbara Silverbush Office Manager: Rowdylin Kopf Communications: Robert Pandiscio (Director), Christine Summerlin, Amy Zelman Readers Report: Yvette Hernandez
 Reprint Permission: Janet Gonzalez

PUBLISHER: [Logo]
SR. VP, ASSOCIATE PUBLISHER: William P. Kupper Jr.
SR. VP, OPERATIONS: Gary B. Hopkins
SR. VP, MARKETING & BRAND DEVELOPMENT: Harold K. Somerdyk
VP, CONSUMER MARKETING/CIRCULATION: Thomas Masterson
VP, STRATEGIC PLANNING & PRODUCT DEVELOPMENT: Kimberly Greer
VPS, SALES: Constance E. Bennett (International), Joanne K. Bradford (Western Region), Dan Dunn (Midwestern Region), Robert H. Kelly (Northeast Region), Louis R. Mohn (Southeast Region)
VP, STRATEGIC PROGRAMS: James H. McGraw IV
VP, SALES DEVELOPMENT: Mark A. Flinn
VP, MANAGING DIRECTOR/ASIA: Stephen B. Moss
VP, MANAGING DIRECTOR/EUROPE: Fritz Krusebecker
VP, TECHNOLOGY: Thomas J. Reed
VP, CONTROLLER: Bernard J. Drackwitz
DIRECTOR, ADVERTISING BUSINESS: Linda F. Carvalho
DIRECTOR, PRODUCTION & SALES SERVICES: Mario J. Talluto

AN AFRICAN AMERICAN WHO'S NOT 'INVISIBLE'

I was deeply disappointed by your offhanded treatment of one of my colleagues in "Invisible in the executive suite" (Cover Story, Dec. 21). Nothing could be further from the truth than your statement that Roland C. Baker has "faded" from the executive scene. Baker is president and CEO of First Penn-Pacific Life Insurance Co., a part of the Lincoln Financial Group. He has built this company into a leader in innovative life insurance products.

I do not dispute the premise of your story that there are not enough African-Americans in CEO positions, but failure to recognize Baker's accomplishments in such a manner is unconscionable.

Jon A. Boscia
 President & CEO
 Lincoln Financial Group
 Fort Wayne, Ind.

GREENER PASTURES INDEED FOR THE PATRIOTS

The "Hail Mary" pass may need more heavenly inspiration to make the sweetheart deal for the New England Patriots in Hartford a success ("Hartford's 'Hail Mary' pass," News: Analysis & Commentary, Dec. 7). If the governor is convinced the guarantee is unnecessary, there is no reason for a "guarantee." Apparently, Massachusetts, with a larger population than Connecticut, refused to negotiate such a bargain. I guess, in a state with high debt and small election-year tax rebates, short-term promises rule in place of long-term thinking.

Robert M. Singer
 Hamden, Conn.

MANAGED CARE IS A BUST, BUT WHAT'S THE CURE?

Robert Kuttner's "A dirty little secret: Managed care is bad for business" (Economic Viewpoint, Dec. 21) makes a great case for universal health insurance. As the for-profit medical-insurance industry continues to consolidate into a

handful of major players, they leverage their buying power to cut costs to reduce payments to hospitals. Hospitals want contracts with insurers that will have to service more patients for less. At the same time, insurers are raising premiums to employees to increase their profit margins. In the meantime, meanwhile, continues to reduce payments for Medicare as a way to reduce the federal deficit.

Caught in the middle are the hospitals and the public. About two-thirds of a hospital's expenses are wages and benefits, with the rest for professional staff such as nurses, radiators and X-ray technicians, therapists, pharmacists, and other health workers. As lower payments decrease revenue, hospital board management will be forced to cut costs which will continue to erode patient satisfaction and quality.

"Managed care" is a misnomer. The present system is service driven by financial incentives. The real answer is universal health insurance. It changes the present financial incentives for insurers, providers, the public businesses to focus on health care and prevention—and acute care.

William J. Griffin
 Vice-President
 Griffin Inc.
 Derby, Conn.

Kuttner has the right diagnosis but the wrong cure: government-subsidized health care. He, like many others, to have been hypnotized into believing that health care and health insurance are inseparable. In fact, health insurance has outgrown its usefulness and has begun to prevent health care.

Insurance helps when it protects from difficult-to-predict catastrophes, such as an early death or a major fire. Everyone throws a small amount of money in the pot so that everyone has enough for the unlucky person who needs it. Today, health insurance protects us from routine and predictable health-care expenses. It is like health insurance against the loss of a

Business Week

A Division of The McGraw-Hill Companies

JANUARY 18, 1999 (ISSN 0007-7135)* 3612**
 Published weekly, except twice a year in June and November, by The McGraw-Hill Companies, Inc., 1221 Avenue of the Americas, New York, N.Y. 10020. Publication, circulation and advertising offices: The McGraw-Hill Companies, Building 1221 Avenue of the Americas, New York, N.Y. 10020. Telephone: 212-512-2000. Telex: Domestic: 125097; International: 125097. Postmaster: Please send address changes to BUSINESS WEEK, P.O. Box 518, Hightstown, N.J. 08520. Periodicals postage paid at New York, N.Y., and at additional mailing offices. Postage paid at Montreal, P.Q. Canada Post International Publications Mail Product Sales Agreement No. 246841.

Registered in the U.S. Patent Office. The McGraw-Hill Companies, Inc. is a registered trademark of The McGraw-Hill Companies, Inc. All rights reserved. The McGraw-Hill Companies, Inc. is a registered trademark of The McGraw-Hill Companies, Inc. Joseph L. DeMott, President and Chief Executive Officer, The McGraw-Hill Companies, Inc., 1221 Avenue of the Americas, New York, N.Y. 10020. Senior Vice President and General Counsel: Robert E. Senior Vice President, Treasury Operations: Vasant Prasad. Information and Media Services.

PHOTOCOPY PERMISSION: Where necessary, permission is granted by the copyright owner for those registered with the Copyright Clearance Center (CCC), 222 Rosewood Drive, Danvers, MA 01923, to photocopy any article herein for the flat fee of \$1.00 per copy of each article, plus the fee for the CCC. Copying for other than personal or internal use without express permission of The McGraw-Hill Companies is prohibited. Address requests for customized bulk reprinting to: P.O. Box 174, Hightstown, NJ 08520 or 1-800-393-6343. PRINTED IN THE U.S.A.

LECTIONS & CLARIFICATIONS

able accompanying "Once more into
ach" (Cover Story, Dec. 28/Jan. 4),
ons by Jeffrey M. Applegate of
Brothers Inc. appeared in the wrong
s. Applegate's forecast for the Dow
industrial average at the end of 1999
0. His yearend projection for the
d & Poor's 500-stock index is 1250.

much for the experts..." (Cover Story,
/Jan. 4), the November high for the
is incorrectly printed. The correct
is 9374.

every store. The costs for this
on are huge administrative ex-
and the loss of control over the
are we receive. At the end of
healthy people have nothing to
the thousands of dollars that
ve sunk into premiums.

put money and control in the
f people, instead of expecting
rs to purchase such policies out
vages or, even worse, allowing
ent to siphon more money out
for higher taxes. People could
high-deductible policies to pro-
selves from serious losses for a
ction of what is currently being
health insurance. They would
balance of that money to spend
own judgment about health care
appropriate.

Dana C. Ackley
Roanoke, Va.

t Kuttner has muddled the dis-
cover health-care reform in the
propagating some misconcep-
out health-care spending. The
regions of these is that U.S.
es are bearing the cost of their
s' health insurance. Health ben-
but one component of employee
ation; the level is set by the
rket. And over all but the very
1, companies offset increases in
of health insurance through de-
a the growth of wages and oth-
benefits. It is American work-
o bear the cost of health
e, not their employers.

ermore, health economists have
lished that a causal relationship
tween increased per capita ex-
es for health care and increased
v. In contrast, the relationship
affluence and health-care
across countries is well-esab-
When the disease has been so
sdiagnosed, it will only be by
that the prescribed treatment
a cure.

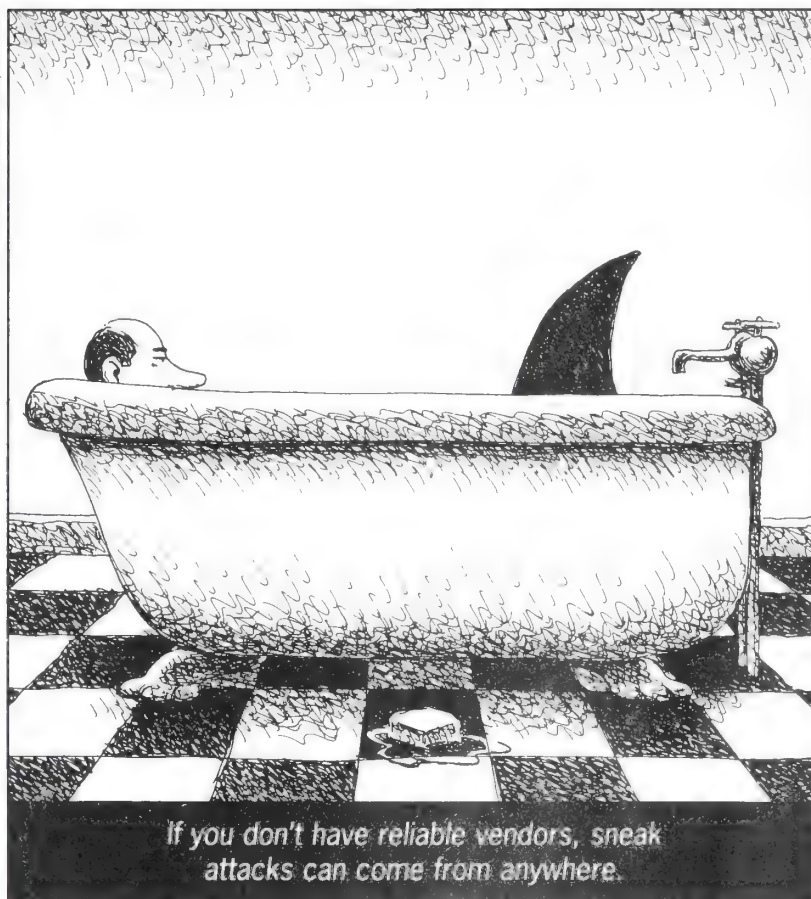
Todd M. Bass
Denver

BEIJING'S REAL FEAR IN TAIWAN

The recent legislative and mayoral
elections in Taiwan would have wors-
ened Beijing's woes if the pro-indepen-
dence Democratic Progressive Party had
emerged victorious ("Making Beijing's
headache worse," International Busi-
ness, Dec. 21). As it turned out, the
DPP was trounced by the ruling Nation-
alist Party, which advocates reunifica-
tion with mainland China.

As long as Beijing sticks to the com-
munist system of government, Taiwan's
policy toward the U.S. and mainland
China will remain unchanged: maintain-
ing the status quo while seeking greater
international recognition for its own sta-
bility and survival. In reality, what Bei-
jing authorities are scared of is not Tai-
wan's breakaway independence but the
burgeoning of democratic thinking and
practices among its affluent population
in years ahead. Such conditions in the
island republic would cause far-reach-

© 1999 The Williams Companies Inc.



You can feel them circling. Business predators. Reduce the risk
with innovative solutions from America's leader in both energy
and communications: Williams. It's true. We're the biggest fish —
make that the *only* big fish — in both ponds.

Williams

Energy • Communications • Leadership

1-800-WILLIAMS • NYSE: WMB

©1998 Hewlett-Packard Company. Estimated U.S. Retail Price.



HP. Better color, no matter what you're printing.

Introducing a new line of HP Color LaserJet printers. Now you can print color that will really get people's attention. That's because our new fast and affordable

HP Color LaserJet printers start at \$2,499.



Color LaserJet printers offer our exclusive ImageREt Color Layering technology. Rather than placing blue dots next to yellow dots to create the illusion of green, our process literally mixes the colors to create real green. Or orange. Or millions of other colors. All at impressive printing speeds, up to 6 ppm. Visit www.hp.com/go/officecolor.

INTERNET ADDRESS DIRECTORY

Reach these Business Week advertisers on the Web:

3Com
www.3com.com
Acura
www.acura.com
Aetna
www.aetna.com
AIM Distributors
www.aimdistributors.com
AMD
www.amd.com
American Century
www.americancentury.com
American Express Financial
Advisors
www.americanexpress.com
The American Institute
of Architects
www.aiaonline.com
American Isuzu Motors Inc.
www.isuzu.com
American Power Conversion
www.apc.com
Amoco Chemical
www.amocochem.com
Arthur Andersen
www.arthurandersen.com
Andersen Consulting
www.ac.com
AT&T
www.att.com
AT&T
www.att.com
Audi Asia Pacific
www.audi.com
Aurum Software
www.aurum.com
Bell Atlantic
www.bell.com
Cathay Pacific
www.cathay.com
Chrysler
www.chrysler.com
The Cincinatti Insurance
Company
www.cincinatti.com
Cisco
www.cisco.com
The CIT Group
www.cit.com
Clarify
www.clarify.com
CNF Transportation Inc.
www.cnf.com
Comdisco
www.comdisco.com
Compaq
www.compaq.com
Computer Associates
www.cad.com
Compuware Corporation
www.compuware.com

Dale Carnegie Training
www.dale-carnegie.com
Dassault Falcon Jet
www.falconjet.com
DataWorks
www.dataworks.com
Datek Online
www.datek.com
Dell Computer
www.dell.com
Deloitte & Touche
Consulting Group
www.dtc.com
Delta Air Lines
www.delta-air.com
Diners Club International
www.dinersclub.com
Edison Electric Institute
www.eei.org
egift a Cybershop Company
www.egift.com
EMC
www.emc.com
Equitable/AXA
www.equitable.com
Ericsson
www.ericsson.com
E-TRADE
www.etrade.com
Federal Express
www.fedex.com
FlexiInternational Software
www.flexi.com
Ford
www.ford.com
Fortis, Inc.
www.us.fortis.com
Founders Growth Fund
www.founders.com
France Telecom
www.france-telecom.com
Fujitsu
www.fujitsu.com
Fujitsu PC Corporation
www.fpc.com
General Motors
www.gm.com
General Motors-OnStar
www.onstar.com
GTE
www.gte.com
GTE Internetworking
www.gte.com
Hewlett-Packard
www.hp.com
Hilton Hotels & Resorts
www.hilton.com
Hoechst
www.hoechst.com
Honda
www.honda.com

Hyatt Hotels Corporation
www.hyatt.com
IBM
www.ibm.com
Infiniti
www.infiniti.com
Intel
www.intel.com
Intelliguard
www.iguard.com
International Institute for
Management Development
www.iiimd.ch
International Paper
www.intpaper.com
Invesco
www.invesco.com
Iomega
www.iomega.com
JBA International
www.jba.com
J.D. Edwards & Company
www.jdedwards.com
Lawson Software
www.lawson.com
Lexus
www.lexus.com
Lincoln
www.lincolnmotors.com
Lotus
www.lotus.com
Lucent Technologies
www.lucent.com
Lufthansa
www.lufthansa.com
MCI
www.mci.com
MITA
www.mita.com
Mercedes-Benz
www.mbusa.com
Mercury
www.mercury.com
Merrill Lynch
www.mll.com
Microsoft
www.microsoft.com
Mississippi Department of
Economic & Community
Development
www.mde.com
Mitsubishi Electric
www.mitsubishi.com
Mitsubishi Electronics
America, Inc./Electronic
Device Group
www.mitsubishi.com
MOVADO
The Museum Watch
www.museumwatch.com
NTT Corp.
www.ntt.com
National Business Aviation
Association, Inc.
www.nbaa.com
National Computer Systems
Pte Ltd.
www.ncs.com.sg
Nationwide Financial
Services-The BEST of
AMERICA
www.nationwide.com

Network Associates
www.nai.com
Netscape
www.netscape.com
Nortel
www.nortel.com
Northrop Grumman
www.northrop.com
Northwest Airlines
www.nwa.com
Novartis
www.novartis.com
Novell
www.novell.com
Okidata
www.okidata.com
Oracle Corporation
www.oracle.com
Pagenet
www.pagenet.com
Panasonic Personal
Computer Company
www.panasonic.com
PeopleSoft
www.peoplesoft.com
Phillips Petroleum
Corporation
www.phillips.com
Praxair
www.praxair.com
The Principal Financial
Group
www.principal.com
The Prudential Insurance
Company of America
www.prudential.com
QAD Inc.
www.qad.com
Quality Inns • Hotels • Suites
www.qualityinns.com
Ricoh Corporation
www.ricoh.com
Roberts Express, Inc.
www.roberts.com
Royal & SunAlliance
www.royalsunalliance.com
SAP Asia
www.sap.com
SAS Institute
www.sas.com
Savin
www.sales@savin.com
Charles Schwab
www.schwab.com
Seagate
www.seagate.com
Siemens Corporation
www.siemens.com
Siemens Microelectronics
www.smi.siemens.com
Silicon Graphics, Inc.
www.sgi.com
Sky-Tel
www.skytel.com
Southern Company
www.southernco.com

Sprint
www.sprint.com
Star Alliance
www.star-alliance.com
Storage Tek
www.storagetek.com
Sun Microsystems
www.sun.com
Sybase
www.sybase.com
Symantec
www.symantec.com
Symbios Logic
www.symbios.com
Tektronix
www.tektronix.com
Teligent, Inc.
www.teligent.com
TIBCO
www.tibco.com
Toshiba America
Information Systems
www.toshiba.com
Toshiba Telecommunications
Systems Division
www.telcom.toshiba.com
Toyota in America
www.toyota.com
Toyota Motor Corporate
Services
www.toyota.com
Toyota Motors
www.toyota.com
T. Rowe Price
www.troweprice.com
Unisys
www.unisys.com
United Technologies
www.utc.com
UBS
www.ubs.com
UPS
www.ups.com
USPS
www.usps.com
USPS Priority Mail
USPS.supplies.gov
US Web
www.usweb.com
UUNET Technologies
www.uunet.net
Visio
www.visio.com
Vivendi
www.vivendi.com
Vizio
www.vizio.com
Williams Communications
Group
www.williams.com
World Mastercard
www.mastercard.com
Xerox
www.xerox.com
Zurich Financial Services
www.zurich.com

BusinessWeek

www.businessweek.com

les among the teeming masses Chinese mainland.

S. T. Tjia
Houston

STREET JUSY BET

ubt that "Investing is not a Editorials, Dec. 28) will dramat-

FINDING US ONLINE

BusinessWeek ONLINE

text of Business Week, the Business Week lefing, and seven years of BW archives are available on the World Wide Web at:

www.businessweek.com

id on America Online at Keyword: BW.
n up for BW on AOL, call (800) 641-4848
and mention Business Week.

maven

z for computer equipment? Visit Maven, our Computer Buying Guide, for continuously dated ratings and price information.
to Keyword: Maven on America Online,
or to the World Wide Web at:

www.maven.businessweek.com

ically influence those investors with the current "obsession with the markets' daily ups and downs" that you noted. Unfortunately, only some unknown or unpredictable events will likely change the psychology that pervades Wall Street right now. But congratulations for bringing the issue to light. Equities are, indeed, a good long-term investment, but short-term thinking and "playing" the market has become the norm for many investors. Let's hope the rest of the media follow your lead in encouraging investors to focus their investing on the longer term and their passions on other worthwhile activities.

Mark L. Aaron
New York

IN PRIVACY RIGHTS, ALL ROADS LEAD TO ROME

In "The U.S. could use a dose of Europe's privacy medicine" (Economic Viewpoint, Nov. 16), Robert Kuttner has a good view of the principles behind our European privacy-protection law. Among others, he cites France and Germany as nations in the European Union that "legally codify a right to privacy." Pity he forgets to say that Italy has

had such a law since December, 1996. It's quite sad that everyone remembers Italy only when it comes to the Mafia, fashion, cooking, and political refugees. I would like to remind your readers that Roman law was born here. Give us credit at least for that.

Giuseppe Lancia
Rome

HOW TO REACH BUSINESS WEEK

LETTERS FOR READERS REPORT

All letters must include an address and daytime and evening phone numbers. We reserve the right to edit letters for clarity and space and to use them in all electronic and print editions.

Mail: Business Week, 1221 Avenue of the Americas, 39th floor, New York, NY 10020
Fax: (212) 512-6458

Internet: bwreader@businessweek.com
America Online: readersbw

SUBSCRIBER SERVICES

For individual subscriptions, corporate subscriptions, renewals, changes or problems, and single copies.

Phone: (800) 635-1200 or (609) 426-7500
Fax: (609) 426-7623

Internet: bwcustsv@businessweek.com

REPRINTS AND COPYRIGHT PERMISSIONS

For custom reprints (minimum order of 1,000) contact (212) 512-3148

For all other permission or reprint inquiries,
Phone: (212) 512-4801
Fax: (212) 512-4938

Internet: www.businessweek.com/reprints/

HP Color LaserJet 4500 Series printers

Featuring ImageREt Color Layering

Designed for workgroups of up to 20 people
4 ppm color, 16 ppm black
Supports a wide range of media including envelopes, labels, transparencies and soft-gloss paper
8 1/2" x 14" color auto-duplex option
High volume paper handling—up to 900 sheet input capacity

Starts at \$2,499

PCWEEK
BEST OF
COMDEX
WINNER



HP Color LaserJet 8500 Series printers

Featuring ImageREt Color Layering

- Designed for departments of up to 50 people
- 6 ppm color, 24 ppm black
- Full range of in-house color printing features—up to 11" x 17" full-bleed for flyers, newsletters, brochures on a wide range of media
- 11" x 17" color auto-duplex option
- Very high volume paper handling—up to 3,100 sheet input capacity

Starts at \$5,999

HP. Better color, no matter what you're printing.

For more information about our Color LaserJet printers, visit www.hp.com/go/officecolor.

hp **HEWLETT
PACKARD**
Expanding Possibilities

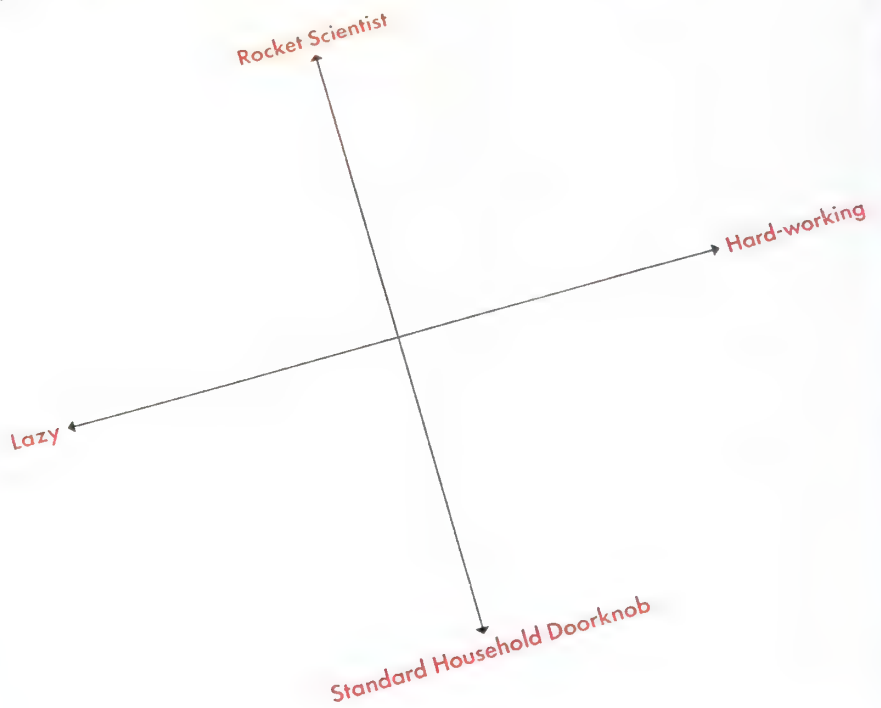
ROBERT ERVIN

936 1/2 Hartswick Ave.
State College, PA 16803

(805) 652-4022

OBJECTIVE: To gain an entry level position with a highly successful company.

Me



REFERENCES: Available upon request.



Resumés.

Business Software.

Internet Services.

Specialty Papers.

Because sometimes,
it's not just what you say,
but how you say it.SM

kinko's
Express Yourself.

www.kinkos.com 1-800-2-KINKOS

THE LAST MOGUL

Lew Wasserman, MCA, and the Hidden History of Hollywood

By Dennis McDougal

Crown • 560pp • \$27.50

THE TITAN WHO REMADE TINSELTOWN

At Universal Pictures' commissary, a glistening wood-and-glass eatery called The Grill, Hollywood power lunchers are doing deals. Barry Diller, whose USA Networks Inc. acquired Universal's TV-production business last year, talks in hushed tones in one of the booths that line the room. So does a conspicuous group of black-hatted rap artists. Although the busy deal-makers might not realize it, history abounds in The Grill—recalled by posters of such long-ago classics as Buster Crabbe sci-fi B movies. History is recalled as well each day at noon, when 85-year-old Lew R. Wasserman, tall and regal with his full head of gray hair and trademark dark suits, holds court at a prime corner table.

Wasserman, who works half-days at the high-rise headquarters building that bears his name, has a lifetime contract for \$1 million a year as a consultant to Seagram Co., which paid \$5.7 billion for control of Universal parent MCA in 1985. Few could say what Wasserman does, but it hardly matters. For without Wasserman, known in his earlier days for his quick mind and quicker temper, there would be no MCA today. Groomed by MCA's founder, Jules Stein, Wasserman was a key player—as the Chicago booking company for music acts evolved from its speakeasy days to become the most powerful outfit in Hollywood.

In his well-researched if dry biography, *The Last Mogul*, former *Los Angeles Times* reporter Dennis McDougal chronicles Wasserman's climb from Cleveland's working-class Woodland Avenue to a seat next to starlets and Presidents. It was powerful agent Wasserman, McDougal writes, who rewrote the rules of Hollywood, securing for B-movie king Ronald Reagan the town's first \$1 million contract and inventing the now-commonplace practice of "packaging," by which agents claim 10% of

the action for offering up actors, directors, and scripts to studio chiefs. Indeed, it was Wasserman, as Jack Warner would later complain to antitrust investigators, who almost single-handedly destroyed the star system, by which studios kept their actors under long-term, low-paying contracts.

Much of this is well-known. But McDougal does a workmanlike job of piecing together Wasserman's ascent, his youthful contact with Cleveland gangsters, and his association with Stein, who proved a brilliant deal-maker. Setting a pattern that would typify its decades-long win-at-all-costs attitude, Stein's Music Corporation of America from the early 1930s won unusual support from the American Federation of Musicians, which helped MCA act as both agent and producer of radio programs featuring its bands. Musicians and rival band bookers cried foul, but nothing illegal was ever proven.

Years later, in 1952, with Wasserman running MCA for Stein, the Screen Actors Guild would grant MCA a waiver allowing it to produce its own TV shows, something not permitted other agents. At the time, the SAG president was Reagan, who by then owed his renewed career to Wasserman.

As it had done with Reagan, MCA seemed to perfect the art of using its talent to get what it wanted. Early on, MCA agents encouraged their star clients to walk off movie sets, claiming illness or creative differences, to get more money. And MCA, which got 10% of everything its stars or directors made, elevated stealing clients to an art form. It unsuccessfully offered, for example, to buy the young Rock Hudson a house if

he would sign with MCA. Then it backed off, agreeing to split with Hudson's existing agent any future increase in salary for the actor. It didn't take long before Hudson, overwhelmed with offers, dumped the other agent.

Wasserman could be heartless with a star no longer served his purpose. "You're through, washed up," Wasserman told a teary-eyed Shirley Temple. "Here," he said, pushing a Kleenex across his desk. "Have one on me."

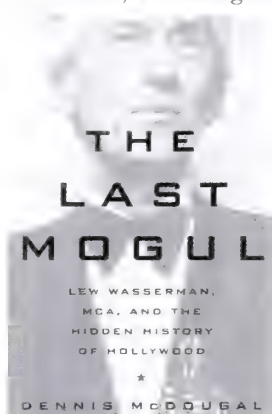
This is fun to read about. But there's little that's new, and McDougal never interviewed the press-shy Wasserman, relies heavily on other published accounts. Moreover, he often employs the salacious: MCA agents are depicted as sleeping with their clients and indulging in indiscretions. And the book points to a link, never fully explored, between Marilyn Monroe's alleged affair with Attorney General Robert Kennedy and the launch of a congressional investigation of MCA by the Justice Dept.

For a man who controlled so much of Hollywood, the end was only quick but not quiet. With multinational interests such as Rupert Murdoch's News Corp. coming to dominate the entertainment scene, Wasserman sold his company to Seagram's electronics giant Matsushita to get the money he needed to build. It never happened. First, he and MCA

founder Sidney J. Sheinberg were away from buying Virgin Records. Then the CBS network, then were in the dark as Matsushita negotiated MCA's sale to spirits giant Seagram. Wasserman, who had run the company for Matsushita, was out. He was a multimillionaire whose company's catalogue includes such films as Spielberg's *Jaws* and *ET*, along with such attractions as the Universal Islands Tour in Orlando. But the entertainment giants' world had passed by—and left him a relic who now lives in a house in Hollywood history at Universal's Grill.

BY RONALD ROSEN

Los Angeles Bureau Chief covers the entertainment industry



HOW LEW WASSERMAN AND MCA CAME TO CONTROL MUCH OF HOLLYWOOD



DOES YOUR INSURANCE COMPANY
TRAVEL IN THE RIGHT FINANCIAL CIRCLES?

www.standardandpoors.com/ratings

When you're buying insurance, nothing is more important than choosing a secure insurer. Why? Because insurance is never a good buy if the insurer can't pay your claim or meet its financial obligations to you. How can you make a well-informed choice? Check to see if your insurer displays the Standard & Poor's Security Circle Icon®. Standard & Poor's, the world's leading financial rating service, is committed to excellence, integrity and objectivity.

**STANDARD
& POOR'S**

Our highly skilled analysts rate the financial health of thousands of insurers throughout the year. For an insurer, displaying the Standard & Poor's Security Circle Icon means it voluntarily underwent our toughest review and achieved one of Standard & Poor's top four ratings for financial security. For you, it's simply the best way to make a well-informed choice. For up-to-date ratings, call 212-208-1527 or visit our website anytime.

A Division of The McGraw-Hill Companies



November 3, 1998, 3:06 a.m.

A Dell customer checks the status of her order at the company's Web site, and finds her answer immediately. Dell gets one happy customer.

Incidentally, 400,000 Dell customers check their orders at the company's Web site each month.





few more examples
commerce solutions

inventory status
millions of books.

features personal
wish lists, a reminder
service for important
dates, and more
products than their
largest print catalog

n is a

fans to experience
e coffee company.
culture of Starbucks.

built its commerce solution on a Microsoft® platform of Windows NT® Server and the
Office® family, because the products scaled easily to meet its growing capacity needs
its \$2 billion in annual online sales. You, too, can quickly build a commerce solution
his scalable, flexible platform starting with many of the systems you already have, along
an industry of partners, to address your specific needs. To find the
partner who can best help you, or to get the free Digital Nervous
em: Commerce Solutions CD, visit www.microsoft.com/dns

Microsoft

IT'S THE WAY YOU THINK, AND THE WAY YOU WORK.

BY STEPHEN H. WILDSTROM

THE YEAR OF THE HOME NETWORK?

Easy-to-use new systems and cheap PCs could make it a big hit in '99

The idea of linking home computers in an office-style network has been around about as long as the computers themselves. But despite the steady growth of multicomputer households, few consumers were interested. The technology was too hard for people to use, and the benefits didn't justify the considerable expense of installing special wiring.

This will be the year that home networks start to make sense. Computers are cheap enough that Dataquest estimates that 15 million U.S. households own at least two. Soon, inexpensive high-speed Internet service will become available to millions of homes through cable systems or new fast phone links. But these connections will come one to a house. So for computers to share them, they'll have to be networked.

DO IT YOURSELF. Equally important, you will be able to link computers at low cost, without networking expertise and without installing any new cabling. The method that will make the biggest initial splash, at least in North America, will use existing phone wiring to transmit data. A consortium of companies called the Home Phoneline Networking Alliance jump-started the market by agreeing that everyone would build their first products using a technology called HomeRun from Tut Systems, so that equipment

from different companies will work together.

I built a do-it-yourself system with hardware from Tut. I was pleasantly surprised by how well it worked on the 50-year-old phone wiring in my home. Configuring the network software was a bit tricky, but I got two Windows PCs and a Macintosh talking to each other and

kits from companies such as Diamond Multimedia Systems and Boca Research. These packages include software that configures the network automatically, allowing all PCs to share files and printers and setting up one computer as an Internet gateway.

HomeRun networks run at one megabit per second. That's one-tenth the speed of standard office networks, but plenty fast for home use. And because they use standard Ethernet technology, HomeRun systems can be cheap; Compaq expects that phone-wire networking should add less than \$50 to the price of a desktop system.

The limitation on phone-wire systems is that you can

panies have agreed on a standard, but current products from different vendors won't work together. It's less is a bit faster than phone wire, but also more expensive. Diamond sells its Free wireless network starter kits consisting of plug-in boards for desktop or one plug-in board and a PC Card for a laptop, about \$200. Prices for IBM's more versatile Synergy system start at \$149 for a desktop card. Proximac notes the need for a gateway PC that must be powered all the time with a standalone gateway. To give any networked computer access to the Net. Anyway, including a standard modem, costs \$299, while a device that works with a cable modem or fast phone line is \$399.

SLOW AND STEADY. The Powerline method uses electrical wiring to carry data. The venerable, the \$200 Passport In Network from Intel consists of two computer modules and a printer. The big, awkward module plug into a power outlet and connect by cable to the computer's printer port, but the use of other parallel devices such as scanners, the system runs at 10 kilobits. Powerline networking will likely end up being used to manage home mate-control and security items, applications where data transfers are not as

One of the best things about the home network products I've seen is that most companies have made configuring and running the network truly easy. Home systems still aren't perfect, but if you have succeeded in setting up a PC to use the Internet, you should be able to manage home networking without trouble. Consider the amount of difficult technology that must be harnessed to get computers talking to each other, this is a remarkable accomplishment.



sharing an ISDN Internet connection. Although Internet sharing is the best reason for a home network, computers can also exchange files and share accessories such as printers or Zip drives—or run multiplayer games.

The setup is a lot easier with the built-in networking from PC makers such as Compaq Computer and add-on

only put a PC where there's a phone jack. This will be a problem in some older homes and especially outside North America, where most homes have only one or two jacks. Here, a wireless solution is a better answer. In operation and setup, it is much like phone-wire networking except that it uses radio waves.

Wireless networking com-

QUESTIONS? COMMENTS? E-mail tech&you@businessweek.com or fax (202) 383-2125

44 of the "Business
Week 50" top
performing companies
are Customers.

EMC²
The Enterprise Storage Company

technology, transportation, and banking to the manufacturing and insurance sectors, EMC Enterprise Storage™ is providing strategic
solutions that help the world's leading companies meet their most aggressive goals. How? By consolidating information and making it available
regardless of the computers in use. To put The EMC Effect™ to work for you, reach us at www.EMC.com/bw50 or 1-800-424-EMC2, ext. 707.

MARCH 30, 1998 EMC² AND EMC ARE REGISTERED TRADEMARKS OF EMC CORPORATION. EMC ENTERPRISE STORAGE, THE ENTERPRISE STORAGE COMPANY AND THE EMC EFFECT ARE TRADEMARKS OF EMC CORPORATION.
©1999 EMC CORPORATION. ALL RIGHTS RESERVED.

EMC AND ITS AFFILIATES ARE THE ONLY STORAGE VENDOR TO BE AWARE OF TIME INC.

EMC²

Enterprise Storage Company. To make the acquisition of your largest competitor work successfully, amounts of diverse information must be consolidated without disrupting daily business. EMC Enterprise Storage makes this a reality. And with EMC's Enterprise Storage Network



Protect, manage, and share
information in a way
that enables you to acquire
your largest competitor.



**THE
EMC
EFFECT**

can enhance data access, boost network performance, and automate storage management. Just
e of the many reasons over 90 of the **FORTUNE**® 100 companies are our customers. To put
EMC Effect™ to work for you, reach us at www.EMC.com/target or 1-800-424-EMC2, ext. 700.

BY ROBERT J. BARRO

EVEN ECONOMISTS CAN'T WAIT TO SPEND A SURPLUS



MICROCOSM?
When the American Economic Assn. had cash to spare, its leaders vetoed a "tax cut." Congress will no doubt act the same way

The U.S. government is in the midst of a debate over how to use its current and prospective budget surplus. Congressional Republicans seem to differ little from their Democratic counterparts. They have not pressed strongly for tax cuts or resisted proposals to raise federal spending.

Economists have diverse opinions about the best way to use the surplus. Ideas include new spending programs, bolstering the Social Security trust fund, cutting taxes, and paying down the national debt. We can gain some perspective on these opinions by seeing how economists dealt with a budget surplus in their own professional society, the American Economic Assn.

Many years ago, while president of the AEA, Milton Friedman worried about how to deal with the association's large accumulated surplus. Friedman's view was that an association with lots of money was dangerous because the money was likely to be spent on someone's concept of a "socially worthwhile purpose." Friedman solved the problem by providing the members with an expensive new journal, with no balancing hike in dues. Hence, he eliminated the surplus by raising spending in a relatively harmless manner. (Dues did rise later to match the increased spending.)

This problem has now recurred. Mostly because of the exuberance of the stock market, the AEA has assets of more than \$8 million, compared with annual spending of about \$4 million. Historically, the association has regarded a reserve of one year's expenses as prudent. Hence, the remaining \$4 million of its current funds can be regarded as excess. My worry, similar to Friedman's, is that this money will be spent on someone's vision of a socially desirable activity.

DUES CREDIT. My preference is for the excess to be returned to the membership through some kind of tax cut. Hence, at the Jan. 2 meeting in New York of the executive committee, I proposed that the dues be cut in half until the level of assets at the beginning of a calendar year was close to matching the budgeted expenditures for the coming year. The spirit of this proposal was that a windfall of funds did not provide sufficient reason for instituting new spending programs. Instead, the extra money ought to be given back to the owners.

It was clear during the meeting that this

tax-cutting proposal was in trouble. My committee members thought that the association was well off financially and could therefore afford new expenditures. One person wanted to expand the size of the association's main journal. Another wanted to fund a series of symposiums. Other ideas for spending involved research on economic education, an expanded study of the role of women in the economics profession, and providing information over the Internet. One observer noted that this inclination to spend the excess was something was reminiscent of the way corporate managers tended to spend their excess cash flow.

In the end, my proposal went down in crushing defeat. I have several hypotheses about why this happened:

- Officers, like managers, relish the idea of having lots of cash on hand so they can run various pet programs without much financial restraint.

- The members' interest in getting a tax cut does not translate into the officers' self-interest in making such a cut. This is partly because the officers have short terms and don't run for reelection. (For instance, my tenure as vice-president was for one year.)

- Some of the officers liked the notion of using the windfall to make tax cuts, but they wanted these cuts to be small in size and spread over many years. This idea has merit, but it works only if future officers are tempted to raise spending when they have lots of money available. The same idea applies to the accumulation of a large fund for Social Security. This idea is attractive only if the government does not react to the existence of the fund by increasing Social Security benefits.

- Some officers thought that the association's world had become more uncertain, especially because of the growth of electronic publishing. Thus, the prudent level to hold in reserves was now more than \$4 million. This idea may have merit, but again, it works only if future officers do not spend the reserves.

My own inclination is toward the first hypothesis. That is, the society of economists acted pretty much the same as the U.S. Congress in focusing on current and future spending to spend a windfall of cash. For me, this is cause for despair. After all, if one cannot trust a group of economists for fiscal restraint, then whom can one trust?

Robert J. Barro is a professor of economics at Harvard University and a senior fellow of the Hoover Institution (rjbweek@harvard.edu).



celeron™

PROCESSOR

Look who's in business now.

Great performance at an exceptional value.

Looking for a smart buy? Here's today's top pick: the Intel® Celeron™ processor. It gives you quick and responsive performance for today's business applications. At a great value. And because it's from Intel, you get all the compatibility and reliability you've come to expect. To learn more, contact your PC manufacturer, see your local reseller, or visit us on the Web. www.intel.com/Celeron



intel

The Computer Inside.™

BUSINESS INTELLIGENCE

HAS IT CROSSED THE CHASM?

Over the past several years, an innovative business approach has gained an increasingly high profile. Business intelligence gives companies the ability to extract greater value from corporate information available everywhere across the enterprise to make better decisions that directly impact the bottom line. Leading organizations worldwide are already achieving significant competitive advantage with business intelligence. But has it reached a critical mass? Is it moving beyond being the "invisible" advantage of Fortune 1000 companies to becoming an essential component of mainstream business success?

PASSING THE MAINSTREAM TEST

Business intelligence has passed what mainstream decision makers demand from a business approach. First, a record of proven, bottom-line results. Second, mature products and professional services to address the complete range of enterprise needs. Third, the security of dealing with an established market leader offering best-of-breed products and global support. And fourth, fast and easy deployment using an organization's existing IT infrastructure — often this is the single most important determinant of whether a technology achieves mainstream adoption.

As the worldwide business intelligence market leader, Cognos Corporation of Burlington, Mass., is uniquely positioned to address all of these criteria. Through developing products that solve customers' specific business problems, Cognos has discovered effective ways to use business

intelligence to solve business problems. Today, organizations like Domino's Pizza, Ford and the National Association of Security Dealers (NASD) are cutting costs, increasing efficiency and enabling new strategic capabilities by adopting Cognos' award-winning business intelligence software. This market leadership is evident in

with other industry leaders such as IBM, Microsoft, PeopleSoft, Oracle and SAP. And Cognos business intelligence software deploys easily and quickly across the enterprise, typically delivering return on investment within 30 to 90 days.

SETTING THE AGENDA

The cornerstone of Cognos' success has been enduring customer relationships. As technologies and business needs have evolved, Cognos has responded with new products that extend business intelligence capabilities. Thanks to these pioneering efforts, a paradigm shift has occurred within many leading-edge companies: managers now expect to be able to

easily access corporate data and view it from any angle, in any combination. They expect their creative reports to not be complex or time consuming. They expect to be able to automatically uncover hidden factors impacting their business. In other words, business intelligence has become a key to how they achieve and sustain competitive advantage.

THE POWER OF THE WEB

As business intelligence enters the mainstream, Cognos has developed products that leverage the Wide Web, which has emerged as a mainstream computing platform. Through the Web, business intelligence capabilities can be distributed to an entire organization. As

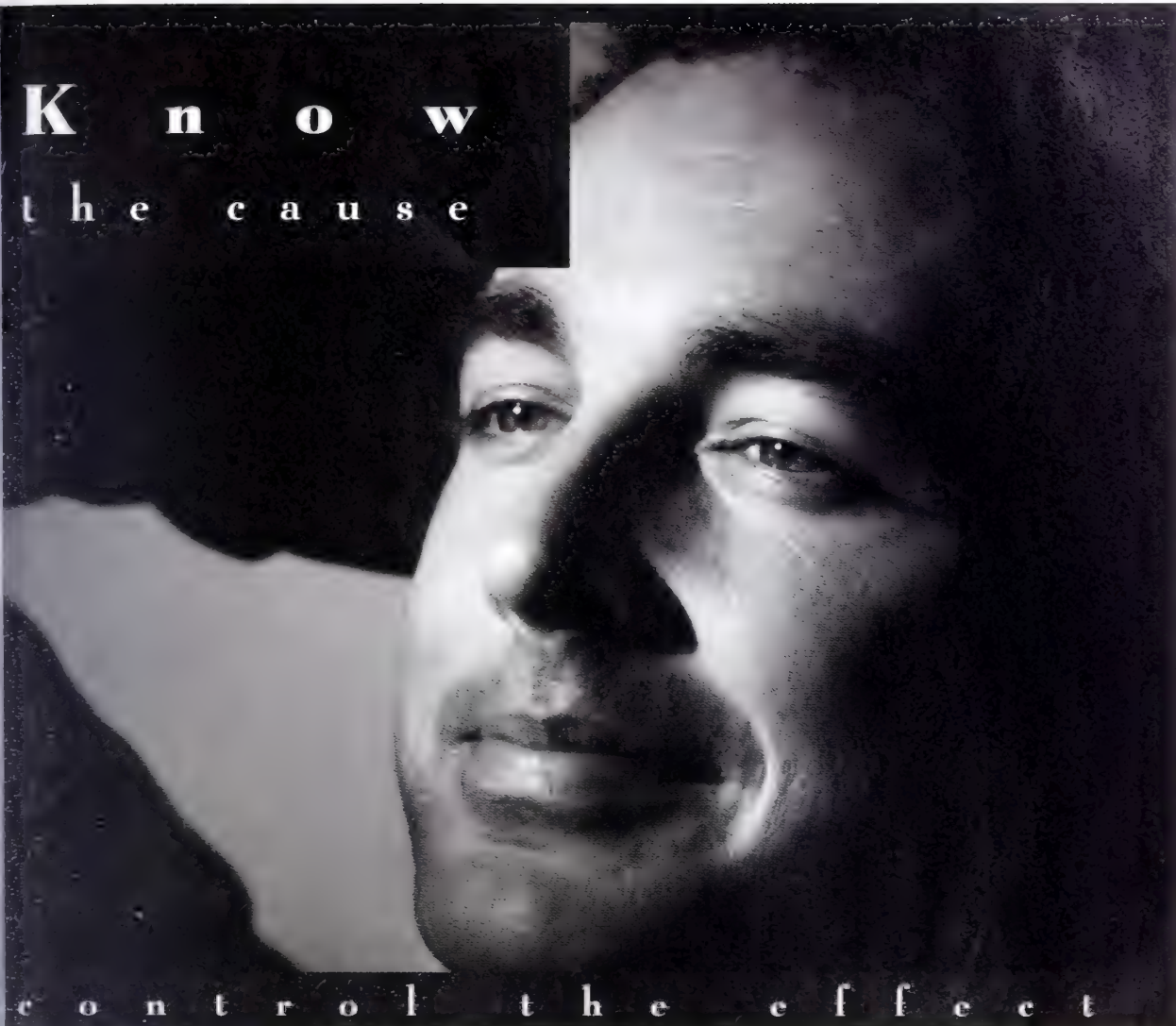
< Organizations like Domino's Pizza, Ford and the National Association of Security Dealers (NASD) are cutting costs, increasing efficiency and enabling new strategic capabilities by adopting Cognos' award-winning business intelligence software. >

every department can see the impact of their impact on the impact of other departments, they can better coordinate the use of information. The organization can better allocate resources to meet long-range goals. The

better decisions, every day — by using business intelligence.



Learn how other companies have used business intelligence to cross the chasm to increased competitiveness. Order your **free** copy of *The Multidimensional Manager* book at www.cognos.com/chasm.



K n o w
t h e c a u s e

c o n t r o l t h e e f f e c t

Success in business is about managing factors that impact your bottom line. To pinpoint those factors, successful companies around the globe turn to world-leading Cognos Business Intelligence software. Whether it's integrated with your critical ERP applications or other established systems, Cognos Business Intelligence software enables business users across your enterprise to securely access, report on, and analyze your corporate data. You have the data, but it's Business Intelligence that puts you in control. And gives you the power to make better decisions every day. Visit our Website or call 1-800-426-4667 ext. 2084.

www.cognos.com/incontrol

© 2004 Cognos Corporation. All rights reserved. Cognos, the Cognos logo, and "Better Decisions Every Day" are trademarks of Cognos Corporation. All other trademarks are the property of their respective owners.

COGNOS

Better Decisions Every Day™

BY GENE KORETZ

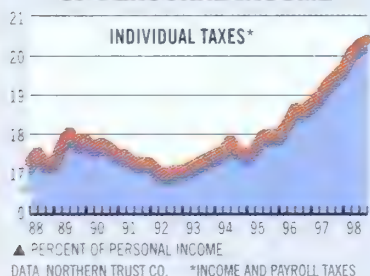
WHEN TAXES SPELL GOOD NEWS

A strong economy boosts revenues

Taxes, as the saying goes, may be as unavoidable as death, but do they have to be so high?

That's the question raised by some supply-side economists who are exercised by what they regard as an alarming statistic: In recent years, federal individual income and payroll taxes have been claiming an ever larger share of

TAXES TAKE A RISING SHARE OF PERSONAL INCOME



personal income—rising from 17.1% in 1992 to 20.4% in the third quarter of '98, the highest level in the postwar period.

As some critics see it, this growing tax bite is squeezing consumers. With more income being siphoned off by taxes, they say, struggling households have had to dip into savings simply to maintain consumption patterns. And the fact that the monthly savings rate recently turned negative for the first time in 60 years underscores the problem.

Does it? Economist Paul L. Kasriel of Northern Trust Co., who has long favored lower marginal tax rates, is dubious. For one thing, he regards the picture of tax-beleaguered households struggling just to maintain consumption as highly exaggerated. In actuality, he notes, people have been spending with exuberance—so much so that consumption outlays have averaged 81.4% of personal income since the start of 1993—the highest level in four decades.

As for the rising tax take, Kasriel claims that the main cause has been increases in inflation-adjusted income, which have been pushing tax filers into higher marginal brackets. Indeed, real personal income last autumn was running nearly 4% over its year-earlier level, compared with a mere 1% gain

that was registered in early 1993.

Similarly, more income has become subject to taxation as more households have moved off welfare rolls and onto payrolls in response to welfare reform and a tight labor market. Kasriel calculates that welfare payments—which are not subject to taxation—have fallen from about 0.45% of personal income in early 1992, to 0.24% at last count.

Finally, Kasriel points to a development others have cited in explaining the falling savings rate and rising tax bite: the huge increase in household net worth generated by the stock market boom. With the value of their past savings and investments rising so rapidly, consumers have felt free to curtail current savings so they can enjoy the fruits of their past thrift now. At the same time, the tax take from capital gains on stock holdings has surged higher, even though such gains themselves aren't counted as personal income.

In sum, rather than a threat, today's high tax receipts and low savings rate appear to reflect highly favorable economic trends: rising real incomes, declining welfare rolls, and increasing household wealth and capital gains.

"At the start of the Reagan Presidency," says Kasriel, "supply-siders promised us higher tax revenues if tax rates were cut. With marginal rates down sharply since then, the irony is that the current revenue surge could be the legacy of Reagan's supply-side revolution."

PARENTAL LEAVE: HEALTHIER KIDS

It has lowered infant mortality

While parental-leave advocates have stressed the benefits for children, there have been relatively few studies demonstrating these benefits. In a new National Bureau of Economic Research working paper, however, economist Christopher Ruhm presents evidence that such policies do have a positive effect on one aspect of children's well-being: infant and child mortality.

Ruhm analyzes changes in parental-leave policies in nine Western European countries from 1969 to 1994. Unlike the U.S., whose 1993 Family & Medical Leave Act gives unpaid parental-leave rights to only those working for larger employers, all of the nations studied have provided paid, job-protected time off to women since at least 1983. Thus, such tax-financed entitlements—currently averaging 32 weeks—are used

by most eligible workers (including men in some countries).

While Ruhm's analysis indicates much of the sharp decline in infant child mortality rates since 1969 was related to parental-leave policies, he does find that longer leaves significantly reduced child deaths. Specifically, leave substantially lowered post-natal and child mortality rates (deaths occurring between 28 days and 12 months of age and between the first and birthdays). By contrast, longer leave policies had little effect on low birth weights or on deaths of younger infants.

Since falling mortality rates are a sensitive measure of health gains, Ruhm, these results suggest that parental leave may be a cost-effective way to improve overall children's health.

ANOTHER HUGE BUDGET SURPLUS

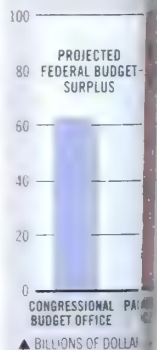
Forecasts may still be way too low

After raising its estimate of 1999's federal budget surplus to \$9 billion to \$80 billion last August, the Congressional Budget Office has now trimmed it back to \$63 billion. And the Office of Management & Budget weighed in with an even-lower projection of \$54 billion.

But both forecasts are likely to be far too low, says economist Maury Harris of PaineWebber Inc. He notes that federal tax receipts in October and November, the first two months of '99, were up 7.1% from the year-earlier period, while outlays were 4.4% lower. If these trends continue through the fiscal year, he calculates, the surplus would hit an impressive \$121 billion.

As it is, Harris is projecting a \$100 billion surplus. Spending growth will be held down by lower interest payments on federal debt, he says, and by an annual cost-of-living adjustment to Social Security of just 1.3%, the lowest since 1987. And revenue growth will be bolstered by rising real incomes and by strong capital-gains tax receipts generated by last year's volatile and ultimately buoyant stock market.

TWO ESTIMATES FOR FISCAL 1999



MES C. COOPER & KATHLEEN MADIGAN

ILL HAMMERING AWAY— ST NOT SO HARD

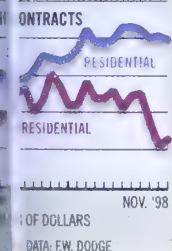
ing starts will cool a bit, while business construction declines

S. ECONOMY

During the winter months, the construction data often tell more about the weather than about the amount of consumers and businesses are shelling out for homes, offices, and stores. A mild winter means building. Snow and ice can temporarily shut the economy down.

Looking beyond the seasonal blips, how is the outlook for construction in 1999 shaping up? The answer depends on which sector you're looking at. Residential building will be supported by low interest rates, tight labor markets, and a strong stock market, though builders will not be as busy as they were in 1998. Nonresidential construction, already sagging in 1998, will continue to shrink in 1999, as capital budgets and cash flows are squeezed by poor profits and cash and tighter credit conditions.

CONSTRUCTION LOOKS WOBBLY



...ing weakness in the business sector (chart). The value of new nonresidential contracts edged up in November, but they had tumbled to a 2½-year low in August. Since August, contracts have dropped 17%, suggesting that last year's slide in business expenditure on new projects is intensifying. Nonresidential construction fell in the first two quarters of 1998, did not rebound in the third quarter, and monthly data show that spending so far in the fourth quarter is above its third-quarter level.

IN BUSINESS CONSTRUCTION, two main trends will continue in 1999. Office construction will expand further, while industrial building faces more erosion. After the overbuilding debacle of the 1980s, office developers have been more prudent in the 1990s. When the recession ended in early 1991, office vacancy rates were 16.6%, 19.1%, and 20.8%, respectively. Since

then, rates have fallen steadily to below 10% for all three categories, the lowest since the early 1980s.

The F. W. Dodge Div. of The McGraw-Hill Companies expects commercial office space to increase 5% in 1999, after surging 23% in 1998. Moreover, with office space tight, rents are likely to rise, enhancing the expected returns on new buildings. However, not all commercial construction will fare as well as office building. Recent rapid growth in retail stores and hotels makes those two sectors especially vulnerable to any slowdown in consumer spending.

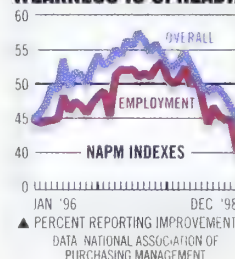
Industrial construction faces the toughest road in 1999. Already, real outlays for new plants and warehouses have declined in each of the past three months, and they are down 8.6% from a year ago. Manufacturing companies have no incentive to expand their facilities: Production is stagnant. Employment and capacity use are falling. Foreign demand remains weak. Domestic demand is expected to slow. And pricing power has evaporated.

The sector's woes are evident in the latest report from the nation's purchasing managers. The purchasers' composite index of industrial activity fell in December to 45.1%, the lowest reading since the 1990-91 recession, suggesting a worsening contraction in the factory sector (chart). In particular, the purchasers' employment index fell to the lowest level in nearly seven years, suggesting more layoffs, and their price index dropped to the lowest level since 1949. Until manufacturing activity bounces back, companies simply will not be building new facilities.

WHILE MANY COMMERCIAL and industrial developers may be on shaky ground in 1999, homebuilders can look forward to another solid year, although not as spectacular as 1998. That's because household financial fundamentals will not be as powerful as they were in 1998, and because so much demand has already been satisfied.

Clearly, 1998 was a banner year for housing. Sales probably totaled 880,000 for all of 1998, the best year ever. In November alone, sales of new single-family homes shot up to a record annual rate of 965,000, up

PURCHASERS SAY WEAKNESS IS SPREADING



7.6% from October's rate, which was revised to 897,000 from 851,000 (chart). Unseasonably mild weather—the warmest November since 1990—appears to have boosted the month's total. Still, builders tried all year to catch up with surging demand. The November inventory of unsold homes slipped to a record-low 3.7 months' supply. And starts of single-family houses in 1998 were the strongest in 20 years.

Four factors have bolstered demand: Strong labor markets made consumers confident about their job prospects, so they were willing to make the financial commitment of homeownership. Solid income growth gave them the means, and stock market gains gave many a source for the downpayment. Plus, low mortgage rates have made home buying more affordable.

THE OUTLOOK FOR EARLY 1999 remains upbeat, as long as Old Man Winter doesn't hinder construction. A December survey of homebuilders showed them very optimistic about sales over the next few months, while mortgage applications to buy a home in December remained close to November's high level.

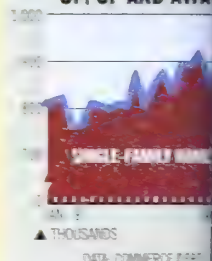
Demographics is a key reason housing will slow this year. In the long run, the major determinant of demand is the number of new households formed. And for the past three years, builders have been putting up homes at a faster rate than young adults are moving out on their own. In addition, a record 66.8% of families are

homeowners, making for fewer potential new buyers. The financial landscape will also bring housing activity down a notch. The stock market is not expected to repeat its gains of the past few years, so consumers may have to channel more of their current income toward retirement accounts or college funds. And term interest rates are expected to rise over the course of 1999, lifting mortgage payments as well.

To be sure, housing isn't expected to fall back by much. For the entire year, the National Association of Home Builders expects starts to average 1.48 million. That's down from 1.61 million in 1998, but it would still be the second-best showing of the 1990s. And the economy will get a lift as the home buyers of 1998 continue to purchase furniture, textiles, and electronics for their new abodes.

Unlike 1998, however, when a roaring housing market offset the decline in nonresidential construction, 1999 should see both construction sectors on a downward trend. It's just that housing won't decline nearly as much as commercial construction. Even so, slowing building activity overall will provide another set of the brakes to slow the U.S. economy in 1999.

NEW HOME SALES UP, UP AND AWAY



CZECH REPUBLIC

UNEASE, EVEN AFTER THE EASING

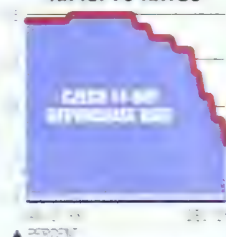
Government policymakers struggle to lift the Czech Republic out of its severe recession, which showed no signs of ending as 1998 closed.

Real gross domestic product in the third quarter fell 2.9% below its year-ago level. A sharp drawdown in inventories led the decline, but capital and consumer spending also fell. The early data on the fourth quarter are equally dismal. October retail sales and construction outlays were below year-ago levels. And industrial sales were down in both October and November.

In response, the Czech central bank has cut interest rates (chart). Since mid-July the bank

has trimmed rates seven times, including a Dec. 22 cut of a full percentage point, bringing the 14-day repurchase rate down to 9.5%. That easing might seem like a godsend, but in fact, inflation

CENTRAL BANKERS TAKE AN AX TO RATES



has fallen faster than have rates, so real interest rates are higher now than at the start of 1998. Yearly consumer inflation was 13.1% in January, but had slipped to 7.5% in November, and is expected to be 7% in December. That means the real repo rate was 2.5% after the latest cut, up from 1.65% in January, 1998.

As 1999 began, the central bank hinted that at least one more rate cut is coming, because the government wants lower

rates to weaken the koruna, whose climb has tempered the growth of Czech exports. The koruna rose 15% vs. the dollar in 1998, and 7% vs. the German mark in 1998. With Czech goods more expensive globally, real exports in the third quarter grew 8.1% from a year ago, down from a 12.3% gain in the second quarter and a 27.4% surge in the first.

Easier monetary policy, though, may spur a recovery in domestic demand, boosting imports and widening the trade deficit. The current-account deficit probably improved in 1998, to 2.3% of GDP from 6.1% in 1997. The main worry is that a reversal in the trend could cause a severe and quick weakening in the koruna, as happened in May, 1997. The result back then was a large and unexpected acceleration in inflation.

The Power to Manage. Anything. Anywhere.

Tivoli



For designed cars and trucks by Ford. A better way to deploy software by Tivoli.

When you set out to build the best performing, safest and most environmentally friendly cars and trucks in the world, it's best not to keep the world (or your designers) waiting. Ford needed a faster way to standardize software across all of their design centers, worldwide.

The solution: IT management software from Tivoli Systems Inc., an IBM company. Using Tivoli Enterprise™, Ford is able to synchronize the release of CAD/CAM software automatically, to its global fleet of 10,000 UNIX®

workstations – all from a central location. Now, instead of spending their time downloading the latest software updates, Ford engineers and designers around the world use identical versions of software to collaborate on new car and truck designs – saving Ford both time and money.

It's one way Tivoli is helping Ford shape the next generation of automobiles. To find out how Tivoli can help speed your designs to market, go to www.tivoli.com or call 1 888 TIVOLI-1.

Tivoli Enterprise is a trademark, and The Power to Manage. Anything. Anywhere. is a service mark, of Tivoli Systems Inc. in the United States and/or other countries. In Denmark, Tivoli is a trademark of Kjøbenhavns Sommer - Tivoli A/S. Tivoli Systems Inc. is an IBM company. IBM is a trademark of International Business Machines Corporation in the U.S. and/or other countries. UNIX is a registered trademark of International Business Machines Corporation in the United States and/or other countries licensed exclusively through X/Open Company Limited. Other company, product, and service names may be the trademarks or service marks of others. ©1998 Tivoli Systems Inc.

WE HAVE LIFTOFF!

The strong launch of the euro is hailed around the world

The mood was giddy just about everywhere on the Continent as Europe's new currency, the euro, made its grand debut. In Frankfurt, dignitaries ceremoniously launched Germany's first euro-denominated stock trading on the morning of Jan. 4 as strobe lights flashed and the uplifting strains of Beethoven's *Ode to Joy* wafted through the bourse. Stock markets from Frankfurt to Paris to Milan responded to the euphoria by soaring more than 8% over the next three days.

The triumphant music seems appropriate, at least for now. After years of skepticism from critics on the Continent and abroad, Europe has its common currency. To the delight of its champions, the euro is a robust newborn, not the pipsqueak its doubters had expected. The \$1.17 kickoff rate set by European authorities already includes a rise of about 10% in major European currencies during the runup to the new currency this fall. According to J.P. Morgan, the euro will climb a further 12% by yearend, to \$1.31.

NEW GAME. Even without such a dramatic rise, the euro is a force to be reckoned with. The long-term effects of melding an 11-nation, \$6.5 trillion, 290 million-person region into one economic and financial bloc are giving Continental Europe new cachet. Companies around the world are eager to exploit what they hope will become a true single market. If the euro acts as a catalyst for regulatory and economic reform, nudging the Continent away from its socialist-flavored capitalism, Europe could become a competitive power, attracting new investment from around the globe.

Already, the euro has instantly created a \$2 trillion government bond market, 20% bigger than the U.S.'s, and should

over time expand anemic Continental stock markets and corporate bond markets to nearly U.S. dimensions. That potential makes Europe a compelling investment story for foreigners and locals alike. "Now that there is no fragmentation of European currencies, we expect to

see enormous investment flows into the new currency," says Luis Mañas, deputy chief financial officer at Spanish oil company Repsol.

That prospect changes the game for Washington as well as Wall Street. From now on, the world's central bankers must watch the euro while setting their own monetary policy. The U.S. Federal Reserve may find that the upstart challenges the dollar as a reserve currency (page 36). That could alter monetary policy: With every move it makes, the Fed would have to take into account the effect on the dollar-euro rate. Tokyo, instead of monitoring just the crucial yen-dollar relationship that regulates the Japanese export machine, must now keep a nervous eye on the euro-dollar link as well. On the bright side, a strong euro will help Japan export more to Europe.

Underpinning the new currency's initial strength are potent economic fundamentals. Economic growth in the euro zone is expected to rival the 2% rate projected for the U.S. this year. And despite the falloff in Asian demand, Goldman, Sachs & Co. expects the region's current-account surplus to hit \$109.6 billion, slightly more than last year. That compares with the punishing \$250

billion-plus deficit projected for the U.S. "There will be upward pressure on the euro against the dollar for the next year or two," predicts Richard Portes, director of the Centre for Economic Research in London.

At the same time, the euro vision ensures that European governments must ensure their fiscal houses in order. Under zone membership rules, national deficits must be less than 3% of gross domestic product. Meeting that rule drove Ireland's deficit in the region down to 0.9% late last year, compared with 1.7% in the U.S. "I'm still bullish on the European economy," says Leonhard Fischer, a board member at Germany's Dresdner Bank. "In all the troubles in the world, I think Europe is the dynamics of the euro take over."

POLITICAL BACKLASH? A strong euro would be welcome in most of the rest of the world, too. It would ease the economic crisis in Asia and other emerging markets by helping make them more competitive when seen from Europe. It also would lessen the strain on the trade deficit on the U.S. export side by giving American exporters a boost.

But there's a dark side to the euro. For Europe to prosper, the dollar can't soar too high. A too-strong dollar could increase strains inherent in the new monetary union. The euro throws together nations with very different financial



BOOSTER A healthy euro would help Asia and trim the U.S. deficit by spurring exports. But if it soars too high, Europe could get clobbered

ployment rate, which averaged 11% last year. A supereuro could slam European exports, slow business investment, and kill off the consumer recovery the politicians are counting on. Goldman Sachs equity strategist Peter Sullivan figures that a 15% rise in the euro, to about \$1.35, would be enough to begin stunting corporate profit growth and clobber booming Continental equity markets.

TAKEOVER BINGE. At least to begin with, the euro is likely to energize Europe's economy. Already, restructuring is rampant among its biggest companies. The massive mergers rumored to be imminent in the auto industry—with BMW,

Volvo, and others believed to be takeover bait—are just one sign of the rush to build greater critical mass. One reason: For carmakers, consumer goods companies, retailers and others, the single currency is suddenly making prices transparent across national borders, unmasking protected profit havens, and forcing the overall level of prices down. Global players such as Volkswagen and DaimlerChrysler can better withstand the strain.

Plus, by boosting the balance sheets and share prices of European companies, a strong euro could accelerate Europe's buying spree in the U.S.

Some analysts think Daimler Benz's \$94 billion takeover of Chrysler and Deutsche Bank's \$9 billion bid for Bankers Trust were signs of a huge takeover binge to come. Germany's Dresdner Bank and the Netherlands' ABN-Amro are already scouting the U.S.

At the same time, U.S. companies in many sectors are mapping massive expansion plans. Investment banks such as Morgan Stanley Dean Witter, Merrill Lynch, and Goldman Sachs have moved whole teams of bankers from New York to Europe. In three short years, they have come to dominate European mergers and acquisitions. In retailing, Wal-Mart Stores Inc. has bought up two German chains and is building a major European presence. Long-entrenched U.S. companies know they have to beef up. "My guess is [the euro] will pull investment capital into Europe," says Mike Burns, the new head of General Motors Corp.'s European operation.

Euro skeptics may be underestimating the new currency's appeal in Asia, too. Tokyo-based Warburg Dillon Read economist Kazuko Mizuno predicts that Japanese life insurers, for instance, will quickly start shifting some of their mas-



and prospects, the low interest rates tailored for Germany with Spain and Ireland. The current fast-growth nations could turn into a style bust if it lasts. And rigid labor regulations mean that pockets of unemployment could crop up in Germany and France at the first hint of recession.

If that happens, pessimists fear that new left-wing governments will practice fiscal prudence and go back to tax-and-spend policies. That in turn could undermine global confidence in the euro and send investors fleeing. "If we manage our economy and Europe manages its economy well, we will determine the euro's value," Deputy Treasury Secretary Robert E. Summers says.

There is also the danger of a supereuro backlash. Leaders in Germany and France, which account for more than half of the euro zone's economic output, are wary that by depressing

growth, business investment, and consumer confidence, a too-strong euro could stall the Continent's already dicey economic recovery. That's one reason German Finance Minister Oskar Lafontaine is calling for a formal trading band to forestall huge swings between the euro, dollar, and yen. U.S. officials reject the idea, but the Japanese are entertaining it, prodded by the Germans and French.

Indeed, the left-of-center governments that have come to power across Europe in the last 18 months are counting on a euro-related boost to help slash the region's unem-



THE FALLOUT FROM A STRONG EURO

THE DOLLAR

If the euro challenged the greenback as a reserve currency, U.S. authorities might need to raise rates to shore up the dollar.

TAKEOVERS

A strong euro would give European companies a powerful weapon to shop for acquisitions around the world.

COMPANIES

U.S. businesses could boost their earnings, and maybe sales, in Europe. But the Continental recovery could suffer.

EMERGING MARKETS

Exporters in Asia and other battered regions could get a lift from selling more goods in Europe.

DATA BUSINESS WEEK

sive investments into euro-denominated bonds. Toyota and other Japanese companies have announced big new investments in the euro zone, because they think the new currency will boost the Continent's economy.

WILD CARD. Buying by Asian central banks could also buoy the euro as they swap euros for dollars in their reserve holdings. The central banks say they plan to monitor the euro for now, but "there will definitely be some switching if the euro turns out to be a firm,

stable currency," says Friedrich Wu, chief economist for state-owned Development Bank of Singapore. Some analysts think the banks will start buying sooner and faster than expected if the euro shows signs of a sustained rise against the dollar.

The wild card in the euro's prospects is interest rates. With U.S. growth at last projected to slow, to about 2% in 1999 after four unexpectedly strong years, economists figure that U.S. Federal Reserve Chairman Alan Greenspan will continue cutting rates from the current 4.75%. At least initially, the European Central Bank also has been easing. It orchestrated a cut to the current 3% in December, even before it officially took over monetary policy. Many economists expect another cut this year. Deutsche Bank thinks euro zone rates could go as low as 2.5% by midyear. That would make the euro a less attractive investment than the dollar even if Greenspan eases considerably.

But the ECB is trying to use its accommodating stance as a carrot for European policymakers. The bank continues to call for more deregulation and other economic reforms. "When the central bankers eased in December, they were saying to the politicians, 'You have to follow through with structural and labor market reforms,'" says Frankfurt-based Bank Julius Baer economist Gerhard Grebe. European central bankers know that a new currency alone won't cure what still ails the Old World. But for now, it's a pretty good tonic.

By Thane Peterson in Frankfurt, with Margaret Popper in Madrid, Owen Ullmann in Washington, Brian Bremner in Tokyo, Bruce Einhorn in Hong Kong, and Karen Lowry Miller in Detroit



SKEPTICS

OUTSIDE, LOOKING IN

Euro holdouts wait and

The countries on the sidelines while champagne corks pop in Brussels and Frankfurt in early 1999. Many of the non-euro countries doubted that the single currency would ever happen. But now, with the euro off to a strong start, pressure is building for them to join.

Britain, the largest of the non-euro countries, will play the bellwether. Its citizens remain decidedly ambivalent.

COMMENTARY

By Stanley Reed

NOW THE DOLLAR HAS A CO-STAR ON THE WORLD STAGE

The birth of the euro may be the most significant event in world monetary history since the collapse of the Bretton Woods fixed-exchange-rate system in the 1970s. If it succeeds, the euro will pose the first challenge to the dollar's dominance as an international reserve currency since the greenback assumed that role.

Why? Size matters. The euro will be the currency of an 11-country zone with more trade revenues than the U.S. and 80% of America's gross domestic prod-

uct. Unless the euro is managed ineptly, it is bound to cut into the dollar's dominance as the mark and yen were never able to do. Dollars now account for about two-thirds of global currency reserves and nearly half of world trade. But as time goes on, central banks will want to hold more euros, while importers and exporters will also prefer the new vehicle over smaller currencies such as the pound and the Swiss franc.

The shift into euros is already beginning. Avinash Persaud, currency strate-

gist at J.P. Morgan & Co., says that in a few years, over 30% of world trade will be invoiced in euros, up from 21% for the 11 euro-zone countries.

Investors, too, will want to stage the blossoming of a unified capital market. Persaud's considerations could lead to a billion switching in the coming year, a powerful prop for the new currency.

Even more far-reaching changes could occur longer term. Columnist Robert Mundell thinks central

**HOOT
TO
SUPPORT
THE
POUND**



Jan. 4, the first official day of euro trading

Minister Tony Blair says Britain is up if and when the economic of doing so are clear. But they never be. Becoming more en- with the mainland may mean up some of the gains that British has won over the past 20 such as flexible labor practices used regulation. Britain "is a lot interventionist [than the Conti- says James Lister-Cheese, glob- egist at investment advisers In- ant Strategy in London. en and Denmark are closely g the signals from London. Swe- ultinationals, with huge sales in o zone, are pushing hard for ship, and Denmark's exchange already formally linked to the But both s fear loss ereignty.

world will sify their oving 7 2006, he dollar could for s. U.S. feel threatened? The a challenge for Treasury Reserve officials as they metary policy. It is coming ime, when global investors nat U.S. stocks have risen hat the U.S. trade gap is ntrollably. A stampede into l lead to a sharp fall for

The last outlier, Greece, thinks that joining the club would trigger an investment boom, and is scrambling to meet the financial criteria.

Despite the uncertainty, Blair is determined to keep laying the groundwork for the euro. Pushing him hard are multinationals and financial houses, which worry that their operations could be hurt if Britain stays out too long. Business "does not want Britain relegated to the status of a quaint offshore trading post," Unilever Chairman Niall Fitzgerald warned recently.

Blair's European partners are not making it any easier for him to sell the euro to Britons. The launch has reenergized the drive toward closer coordination on the Continent, which is unlikely to work to Britain's advantage.

German calls for tax harmonization—code for raising levies in low-tax countries such as Britain—have been a boon for anti-euro campaigners. Rupert Murdoch's influential *Sun* tabloid warned Blair on Jan. 4 that 94% of its readers were against joining.

ODDS IN FAVOR. By biding his time, Blair is giving Britain flexibility to resist Continental pressures for higher taxes and regulation. "It is a big leap of faith to think that the Continent is going to become like Britain, rather than vice versa," says Bruce Kasman, European economist at J.P. Morgan & Co. in London.

The odds nonetheless favor Britain's joining the monetary union if Blair wins reelection in 2002. Unlike his predecessors, Blair has sold himself to voters as a leader who can advance Britain's interests by cooperating with, rather than antagonizing, the rest of Europe. His policies—

the dollar, forcing the Fed to respond with much higher rates, which could tilt the U.S. economy toward recession. Foreign investors might lose their taste for U.S. government securities, putting more upward pressure on rates.

Of course, the changes may not be so disruptive. Portfolio shifts are likely to be gradual. Europe has a long way to go before it matches the U.S. in economic prowess, much less political might. Plagued by structural problems, Europe's gross domestic product growth has lagged behind the U.S.'s by an annual average of ½%. "Economic performance

FENCE-SITTERS WEIGH THE PROS AND CONS

BRITAIN

Britons fear EMU would mean higher taxes but banks want to join to keep London a finance center.

SWEDEN

Companies with strong sales in Europe want in, while leftist parties fear joining would force welfare cuts.

DENMARK

Is tightly bound to the European economies, but fears joining will curtail its sovereignty.

GREECE

Thinks joining will spark an investment boom and is struggling to meet membership requirements.

from giving independence to the Bank of England to running a trim fiscal ship—are consistent with eventual British membership in the EMU.

Of course, much depends on the course the euro takes. If the new currency proves a stimulus for economic reform on the Continent, it will be easy for Britain to join. Blair's choice will also be simple if monetary union proves a mess. But the situation is more likely to be somewhere in between. If so, Blair will have to make a crucial decision. Is Britain better off as a haven off the mainland, or as a full-fledged participant in a still-overregulated Europe? His answer could well influence all euro fence-sitters.

By Stanley Reed in London



matters for a currency's credibility, and Europe still has serious problems," says Bruce Kasman, European economist at J.P. Morgan in London. Moreover, some European politicians may prefer a weaker euro and lower rates to keep the economy growing at home.

Still, as traders and investors focus on the euro, they'll watch a new set of institutions and players. European Central Bank Governor Wim F. Duisenberg's words will be parsed as finely for clues on rates as are the utterances of Fed Chairman Alan Greenspan. No matter what, the euro is sure to steal some of the greenback's limelight.

London bureau chief Reed covers international finance.



DEALS

A CELL PHONE IN EVERY POCKET?

The bidding war over AirTouch reflects the explosive growth in wireless calling

The bidding is fast and furious. Bell Atlantic Corp., according to analysts, opened with a stock-swap offer for AirTouch Communications Inc. valued at nearly \$45 billion over New Year's weekend. Never mind that Bell Atlantic is still awaiting approval to buy GTE Corp. for more than \$60 billion. But its audacious AirTouch bid, which Bell Atlantic acknowledged on Jan. 3, was quickly topped by Vodafone Group PLC. According to analysts, by Jan. 6, the British wireless upstart was offering \$54 billion in cash and stock—about \$10 billion more than Bell Atlantic was willing to pay.

Why AirTouch? The wireless revolution. Huge price declines over the past decade have turned what had been a luxury item for Hollywood agents and investment bankers into a daily necessity for everyone from cab drivers to retired schoolteachers. The number of wireless users in the U.S. has boomed over the past decade, to 66.5 million from 1.6 million, according to the Cellular Telecommunications Industry Assn. Sanford C. Bernstein & Co. figures that number could reach 110 million in 2002. Worldwide, in five years, there could be more than 400 million. "People are using wireless as anytime, anywhere commu-

nications," says Daniel R. Heslop, president of AT&T Wireless Services.

The will lead to sweeping changes in how business gets done and how companies will have to serve consumers. Many experts believe that wireless will become our principal means of communication. "Our children's children will watch old movies with wired phones and wonder why anybody ever used them," says Andrew Cole, head of consulting at Renaissance Worldwide Inc.'s wireless practice. Adds Merle Gilmore, president of Motorola's Communications Enterprise, "Wireless has become an equal player."

The shift to wireless is what

a property like AirTouch such a hot commodity. With AirTouch, which covers the western U.S., Bell Atlantic can offer cell service across the country. For the AirTouch's operations in 12 states could make it a global player. Or maybe both things could happen. If Bell Atlantic and Vodafone

service. Among them, wireless is essential. While only 7.6% of all phone minutes were on wireless networks in 1998, that share is projected to grow to 17.7% in 2002, according to market researcher Yankee Group Inc. That means that without a big wireless presence, carriers are likely to see more and more of their business siphoned off. "Any operator that doesn't play significantly in wireless is going to lose," says Bob Egan, research director for Gartner Group.

So AirTouch isn't the only property being sized up. Likely buyers include SBC Communications Inc. and Bell South Corp., which—like Bell Atlantic—have only regional wireless networks.

The company with the biggest need is MCI

WorldCom Inc., which has virtually no wireless operations. Bankers and investors figure MCI WorldCom will have to make a wireless deal—and soon—even though CEO Bernard J. Ebbers has claimed to have no interest in one.

So, who would MCI WorldCom buy? The most likely candidate, say analysts, is Nextel Communications Inc., based in McLean, Va. Nextel, targets the same corporate customers that MCI WorldCom fancies. Meanwhile an array of independent wireless players, such as Aerial Communications and Omnipoint Communications Inc., are likely targets for other phone companies.

Despite rapid growth, it could be risky to pay too much for wireless capacity now. The same factor that's driving usage—falling prices—is also squeezing margins. Prices now average 44¢ a minute, according to Sanford C. Bernstein, and bottom out at about 10¢ a minute. With five or six competitors in most markets, analysts predict that price declines will average about 20% annually. "Price will hemorrhage over the next two years," says Renaissance's Cole. "We think you'll see 3¢ a minute in the near future."

Even now, the declines are dramatic. "Our prices are where I thought they were going to be two years from now," says George Schmitt, president of New York-based Omnipoint, which provides wireless service on the East Coast.

WHO WILL PAY? Another issue: Until some technical improvements arrive, wireless phones won't match wired ones in some key areas. Most important, mobile phones aren't very good at carrying data traffic—and almost all wireless users have PCs. Modems for wireless phones top out at about 9.6 kilobits per second. For \$50, you can get a 56-kbps modem for your PC. While data speed is supposed to hit 2 megabits per second in third-generation wireless technology—called "3G" in the industry—it won't be introduced until at least 2002.

Another major issue for wireless use in the U.S. is who pays for the call. In Europe and most other parts of the world, people accept all kinds of incoming calls on their mobile phones because they don't pay anything for them; only callers pay. In the U.S., wireless users pay for incoming as well as outgoing calls. Late last year, the board of the

cellular industry association endorsed what's called "calling party pays" in a letter to the chairman of the Federal Communications Commission. But a host of thorny issues need to be solved.

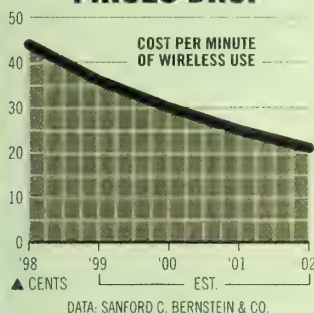
Vodafone, for one, might like to take up the challenge. The wireless

player is known for pit-bull aggressiveness: It frequently forces British Telecommunications PLC to match its rate cuts in Britain. But Vodafone's brash CEO, Chris Gent, may find himself having to contend with Bell Atlantic's equally determined CEO, Ivan Seidenberg. Since Vodafone primarily wants a piece of the booming international wireless market, and Bell Atlantic wants AirTouch's domestic operations, there could be a compromise. For the right price, AirTouch could be split in two, with Bell Atlantic taking the U.S. business and Vodafone taking the rest. Such a deal could give both buyers what they need—and AirTouch shareholders could see a rich payday.

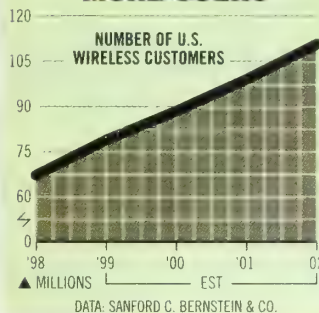
By Peter Elstrom in New York, with Catherine Yang in Washington and Stephen Baker in Paris

COMING WIRELESS WORLD

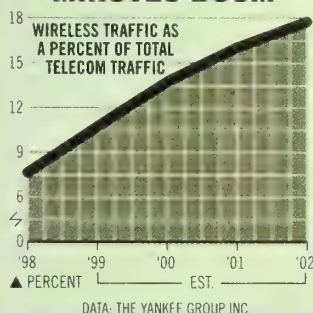
PRICES DROP



MORE USERS



MINUTES BOOM



are a way to divide the baby. Bell Atlantic is highly motivated to make a deal for competitive reasons. It's hearing from customers—particularly its most prized business clients—that they want it to offer them a service, regardless of where they are. Today, Bell Atlantic customers pay when they're out of their home but only by paying "roaming" charges over the 50¢ a minute or more. Bell Atlantic has to pay other carriers when customers need to call out of its region.

CUSTOMERS. National networks, like AT&T and Sprint Corp., face no such barriers and are both aggressively expanding national coverage for 10¢ a minute for using cell phones out of their home region. AT&T says its plan to attract 100,000 customers a month, each paying at least \$90 monthly. "We don't have [national coverage] for a growing percentage of customers who won't buy from you," says Drew Sukawaty, CEO of Sprint's wireless operations. "We need to be able to reach 20% two years. Now, it's 10% of the market—and

might over time also rework how the U.S. industry is set up—into a single carrier or all sorts of



THE INTERNET

'TWAS THE SEASON FOR E-SPLURGING

The holiday online shopping boom was big, but can it last?

In the history of the Internet, the holiday season has been a time of great excitement and anticipation. It's the time when millions of people log on to their computers to shop for gifts, and the time when retailers expect to see a significant increase in sales. But this year, the excitement may be tempered by a reality check.

According to a new survey by the National Retail Federation, online sales during the holiday season are expected to grow by 10% over last year.

But not all retailers are expecting a boom. Some are expecting a slowdown. This is because of the "reality check" that many retailers are facing. The reality is that online sales are still a small portion of total retail sales. And while online sales are growing, they are not growing as fast as some retailers had hoped. This is because of the "reality check" that many retailers are facing. The reality is that online sales are still a small portion of total retail sales. And while online sales are growing, they are not growing as fast as some retailers had hoped.

According to a new survey by the National Retail Federation, online sales during the holiday season are expected to grow by 10% over last year. But not all retailers are expecting a boom. Some are expecting a slowdown. This is because of the "reality check" that many retailers are facing. The reality is that online sales are still a small portion of total retail sales. And while online sales are growing, they are not growing as fast as some retailers had hoped.

According to a new survey by the National Retail Federation, online sales during the holiday season are expected to grow by 10% over last year. But not all retailers are expecting a boom. Some are expecting a slowdown. This is because of the "reality check" that many retailers are facing. The reality is that online sales are still a small portion of total retail sales. And while online sales are growing, they are not growing as fast as some retailers had hoped.

According to a new survey by the National Retail Federation, online sales during the holiday season are expected to grow by 10% over last year. But not all retailers are expecting a boom. Some are expecting a slowdown. This is because of the "reality check" that many retailers are facing. The reality is that online sales are still a small portion of total retail sales. And while online sales are growing, they are not growing as fast as some retailers had hoped.

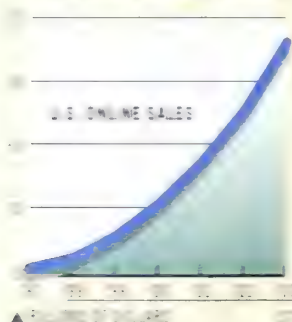
But not all retailers are expecting a boom. Some are expecting a slowdown. This is because of the "reality check" that many retailers are facing. The reality is that online sales are still a small portion of total retail sales. And while online sales are growing, they are not growing as fast as some retailers had hoped.

According to a new survey by the National Retail Federation, online sales during the holiday season are expected to grow by 10% over last year. But not all retailers are expecting a boom. Some are expecting a slowdown. This is because of the "reality check" that many retailers are facing. The reality is that online sales are still a small portion of total retail sales. And while online sales are growing, they are not growing as fast as some retailers had hoped.

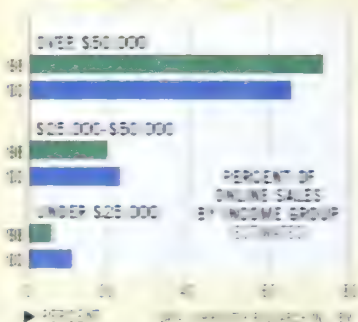
According to a new survey by the National Retail Federation, online sales during the holiday season are expected to grow by 10% over last year. But not all retailers are expecting a boom. Some are expecting a slowdown. This is because of the "reality check" that many retailers are facing. The reality is that online sales are still a small portion of total retail sales. And while online sales are growing, they are not growing as fast as some retailers had hoped.

According to a new survey by the National Retail Federation, online sales during the holiday season are expected to grow by 10% over last year. But not all retailers are expecting a boom. Some are expecting a slowdown. This is because of the "reality check" that many retailers are facing. The reality is that online sales are still a small portion of total retail sales. And while online sales are growing, they are not growing as fast as some retailers had hoped.

ONLINE SALES RISE...



...MOSTLY AT THE TOP



pill that helps men with erectile dysfunction respond again.



Naturally, the response has been positive.

Now there's a simple new pill for the treatment of erectile dysfunction (a common medical problem also called impotence).

VIAGRA® (sildenafil citrate) is a prescription pill that may help you achieve erections the natural way—in response to sexual stimulation. Ask your doctor if VIAGRA is the right step for you.

VIAGRA should not be taken by men who use drugs known as nitrates (most often used to control angina) in any form, at any time. Nitrates can reduce blood pressure to unsafe levels if used with VIAGRA. Be sure to talk to your doctor about any medications you take.

In clinical trials, VIAGRA was well tolerated. Some men experienced side effects, including headache, facial flushing, and upset stomach. A small percentage of men experienced mild and temporary visual effects. (See product information for more details.)

*For more information, call
1-888-4VIAGRA or visit www.viagra.com.*

VIAGRA®
(sildenafil citrate) tablets

Let the dance begin.

VIAGRA
(sildenafil citrate) tablets

Let the dance begin.

© 1998 Pfizer Inc. All rights reserved. U.S. Patent 5,229,471

Pfizer U.S. Pharmaceuticals

commerce companies going to be profitable? Yes," he says. "Any business creates genuine customer values relative to a state where it's profitable."

Still, Amazon's margin squeeze may be a warning sign for other retailers. For example, while Eddie Bauer's profitable online unit saw sales rise during the 1998 holidays, its processing costs rose as well. Amazon experiences are "a reality check" that will make companies really question where money is spent and where they get the returns," says Judy Nelson, divisional vice-president for interactive media at Eddie Bauer.

Then there's the question of growth online. Optimistic projections abound: Forrester Research Inc. says online sales growing almost 13% from an estimated \$7.8 billion in 1998 to \$108 billion in 2003. Visa predicts by 2003, as much as 10% of its volume will come from the Net, up from 1% in 1998. But it's likely that some products will sell better than others. Some 20% to 30% of all book sales take place online within five years, according to Boston Consulting Group Inc., while clothing could merely mimic the catalog model. Catalog sales are for just 8.5% of the women's clothing market. "I don't think we know what model [online sales are] mimicking, which is why retailers are paying attention to it," says Michael Neve, director at McKinsey & Co.

BACK FOR MORE. Another question is whether online merchants can reach the mass market. In 1998, households with annual incomes of more than \$50,000 accounted for 47% of total retail sales, but 74% of online sales. Forrester expects lower-income consumers buying online over the next several years, but even income households still accounting for 66% of online sales by 2003. That's a desirable demographic, but it may be too narrow to support all the retailers rushing the Net.

True, the same factors that drove holiday sales—convenience, time savings, comparison shopping—will continue to drive traffic throughout the year. A recent survey of members by AOL Online Inc. shows that 98% of shoppers plan to buy online again during the next six months. Meanwhile, there are always new reasons to log on: Macy's, for example, is expanding its online line. J.C. Penney Co., which sells 3,500 items online now, expects to sell all 10,000 to 12,000 items in the catalog online, and all 20,000 fall catalog items online. By then, Internet sales will be gearing up once again, and top the previous year's blows.

By Heather Green in New York
bureau reports

TIPS

CELINE'S BID FOR THE BIG TIME

ame-your-own-price Net
ing site aims to go public

William Shatner has gone from
trekkie to techie since April.
That's when he began promising in
ad print ads that a service called
e.com was going to be "big, really
big." The big idea is "real time" pricing:
users name the price they'll pay
for items ranging from plane tickets to
reservations to mortgages and cars.
Seller accepts, they have a deal.
Already, priceline has lured \$100 mil-
lion venture investors including Mi-
cro-founder Paul Allen's Vulcan
Inc. In July, Richard Braddock,
North Communications ex-chairman

ad introduced priceline,
of people have visited
website. Here's why.



R: Part
million
ing drive

and former Citicorp
president and chief
operating officer,
became priceline's
chairman and CEO.
Now, the company
is preparing to join
the ranks of hot In-
ternet stocks: It
wants to raise
about \$115 million
by launching an in-
itial public offering.
Can a priceline be an E-commerce
story? Like many Net startups, it
isn't yet turning a profit. It lost \$38.5
million in sales of \$16.2 million in the
first six months of 1998 as it spent
heavily on the Shatner ads and aggres-
sive marketing to build an audience.
In addition, priceline's basic approach
has limited appeal. Consumers
are free when they name a price to
see what product priceline finds. So you
end up flying from New York to
Miami. While the service costs
about 1.1 million tickets
from Jan. 6 to Sept. 30, it matched sell-
ers for only 67,300. And
it still needs more merchants, any-
way. Citing the IPO, officials would
not comment. Still, that ".com" in its
name could make priceline a hot IPO.
By Heather Green in New York



WHO GOT WHAT

Stern won a cap
on salaries,
though it's not
as tight as he
wanted; players
got higher
minimum
salaries

COMMENTARY

By Aaron Bernstein

THE NBA'S BOSS WINS IT AT THE BUZZER

With the end of the six-month
player lockout on Jan. 6,
everybody connected with the
National Basketball Assn. won a vic-
tory—by salvaging a season at the
last possible moment. But Commis-
sioner David J. Stern won the most.
Sure, he failed to panic players with
a clumsy last-minute effort to force a
vote on the league's so-called final
offer. But owners walked away hap-
py after a secret all-night bargaining
session that clinched a deal just
hours before the league's 400 players
were due to vote in New York. After
all, Stern had already prodded play-
ers to concede far more than they
had planned even before the 11th-
hour maneuvering began.

LITTLE LOST. The new deal, which still
must be ratified by all 29 owners, al-
lows the league to salvage its season,
now scheduled to begin the first week
of February, allowing a 50-game
schedule. As a result, both sides will
be able to save much of the \$2 billion
in revenue that a full 82-game season
would have brought in. "We both
compromised," says Jeffrey L.
Kessler, an outside lawyer for the
union. On Jan. 6, some 200 players—
all but a handful of those who showed
up—voted for the agreement.

Stern emerged the victor because
players caved in on key issues. The
owners had demanded that the NBA
Players Assn. limit the explosive
growth of salaries, which have
jumped at a double-digit rate for
years. While Stern gave ground from
what he swore was his last offer,

players still agreed to cap their
share of league revenues at levels
lower than the 57.5% they raked in
last season. Under the new contract,
players get up to 55% in most years.
If their share goes higher, they must
put 10% of their salaries into an es-
crow account for owners. And there's
a tax on high-spending teams.

Also, for the first time, players
agreed to set maximum salary levels,
although not as low as Stern wanted.
Players with up to five years' experi-
ence will be capped at \$9 million,
those with six to nine at \$11 million,
and the 10-plus guys at \$14 million.
Players also agreed that teams can
require rookies to stay with a club for
five years, vs. four now.

The union did win some flexibility.
In some cases, players can bargain for
juicier contracts even if their team is
already spending over the new salary
caps. Plus, minimum salaries will rise.

In the end, owners got their top
goal: more control over soaring
salaries. Pay will still rise, but more
in line with revenue. That could give
owners a fatter cut of the NBA's new
\$2.65 billion in TV contracts.

But no one is really a loser, either.
With so much more money coming in
each year, the lockout that began last
July was never about one side suffer-
ing a real setback. Instead, the central
issue has been who gets the biggest
share of the growth. With the new
contract, that's likely to be the owners.

Bernstein covers labor
for BUSINESS WEEK.

monopoly /mə'nɒpəli/ n. 1. exclusive possession of the session or control of (a trade or prevent others from sharing in) —**monopolization** /-ɪz(ə)n/ n. [f. foll.] **monopoly** /mə'nɒpəli/ n. 1. exclusive possession, control, trade in some commodity. 2. exclusive possession, control, or exercise (of, (US) on). 3. a thing of which one person or firm etc. has a monopoly. [f. L f. Gk (MONO-, pōlēō sell)] **single rail** /'sɪŋgl̩r̩leɪl/ n. a railway in which the track the doctrine that th

LEGAL AFFAIRS

A TOUGH SELL, BUT NOT IMPOSSIBLE

Microsoft will argue that it fails a key test for a monopoly

As the Justice Dept.'s last witness takes the stand in its antitrust suit against Microsoft Corp., the company is revving up its defense. The thrust: Microsoft doesn't have monopoly power.

It would seem to be a tough sell, given that its Windows operating system comes installed on 90% of all PCs. Yet it's not perfectly clear that Microsoft fits the classic legal portrait of a monopolist: the ability to raise prices or the power to limit supply without attracting new competitors. And if it's not a monopoly, then how can it abuse monopoly power, as the government charges? That, at least, will be the argument that Microsoft's first witness, Massachusetts Institute of Technology economist Richard Schmalensee, will make when he takes the stand during the week of Jan. 11.

HELPFUL PRECEDENTS. Microsoft can marshal Supreme Court and lower court decisions to help out. In these cases, the courts found that even 100% market share doesn't prove monopoly power if rivals can easily gain entry.

In 1990, for instance, an appeals court in California rejected the Justice Dept.'s claim that movie-house operator Raymond J. Syufy had monopoly power, even though he had bought all first-run theaters in Las Vegas. The court held that the movie-house business is a "rough-and-tumble industry, marked by easy market access." The court noted that Syufy's market share started to decline after Justice filed the case.

The question for Jackson: Is the PC operating-systems market as easy to

enter as the Las Vegas movie-theater market? Justice says no. Some antitrust attorneys and many industry insiders agree. On Jan. 5, government witness Franklin M. Fisher testified that there is a major obstacle to entry into the OS market: Because Windows is dominant, most software applications are written for it. That, in turn, said the Massachusetts Institute of Technology professor, creates more demand for Windows—making it tough for rivals to break in.

Fisher pointed to the depositions of a number of PC makers who testified that potential rivals would have a tough time persuading software writers to incur the expense of writing to both Windows and other operating systems. And without applications, they said, consumers won't switch. "The threshold for entering the market is very high," says Chicago attorney Terry F. Moritz.

Microsoft's lead-off witness, Schmalensee, is likely to argue that Microsoft operates in one of the most free-wheeling of all markets, replete with meteoric rises and stunning failures. Just take Apple Computer Inc.—once stumbling and now thriving. Sales of new iMac computers boosted its market share from 2.1% last spring to 6.6% in August, according to ZD Market Intelligence. "The concern of antitrust law is the durability of market power, not its transience," says William E. Kovacic, a visiting antitrust professor at George Washington Uni-

versity School of Law. True enough. After the deluge of PC sales in the fourth quarter—most of which included Windows—Apple's share had dropped to 5.3% by November.

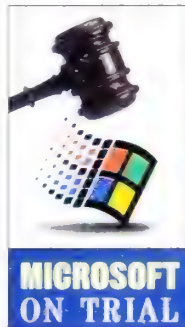
Microsoft likes to point to Apple Online's acquisition of Netscape Communications to show how quickly tunes can change. It asserts that as long as there are browsers, Netscape's—which can operate on operating systems other than Windows—then the potential for OS rivals to emerge exists. But Fisher testified that the Netscape browser, Java programming language, and other "alternative" technologies "won't seriously threaten Windows' dominance."

IN THE WINGS. But if Microsoft is dominant, can it set prices as it wishes? William F. Shughart II, an economics professor at the University of Mississippi's School of Business Administration, argues that fear of competition stops Microsoft from acting like a monopolist and charging more for

downloads. He says that Microsoft's wholesale prices for operating systems have remained relatively stable, while Windows now includes more features. "If Microsoft attempted to raise prices above competitive levels, there are substitutes ready to expand their market shares," Shughart says.

Schmalensee is expected to make similar points. He says the pricing debate is just a sideshow. Fisher has concluded that Microsoft's pricing for PC makers is anticompetitive and he's expected to testify about that analysis, based on confidential Microsoft information, in a closed-court session. Testimony could hurt the software giant's argument. But if Microsoft can show that it can avoid the monopoly tag, the entire case crumbles. So you'll be hearing a lot about Microsoft on why, despite that 90% market share, it's not a monopoly.

By Susan B. ...
in Wash



What a laptop can do.

Get e-mail. 2. Send e-mail.
Search the Net. 4. Prepare memos.
Check appointments and contacts.
Set up a new derivative pricing
model. 7. Put together a 3D animated
short film. 8. Lay out the company
newsletter. 9. Analyze data from radio
telescopes. 10. Edit digital video.
Design a new kitchen. 12. Develop
new software. 13. Develop new CD-
ROMs. 14. Retouch swimsuit photos.
Play photo-realistic 3D video games.
Assist with scientific visualization.
Play back audio CD. 18. Expedite
financial analysis. 19. Do mail merges
for the high school reunion (unless you
went to a really small high school).
Aid in digital signal processor
design. 21. Do database programming.
Use lots of floppy disks. 23. File
income tax returns. 24. Composite
digital video. 25. Author virtual reality.
Store a large number of files.
Connect to a large number of
external storage devices. 28. Play
educational CD-ROMs. 29. Conduct
virtual reality demonstrations.
Balance the checkbook for a

What you really do.

1. Get e-mail. 2. Send e-mail.
3. Search the Net. 4. Prepare memos.
5. Check appointments and contacts.

Powered by



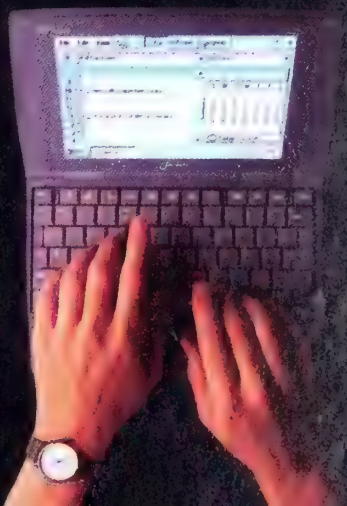
Microsoft®
Windows®CE

Handheld PC

Jornada

Introducing the Jornada 820 Handheld PC.
Just 1.6 pounds.
Convenient-size screen and keypad.
More than 10 hours of battery life.
A 56K modem and Pocket Office
are built in. And less-vital stuff left out.
Available at CompUSA, Fry's,
Computer Center, J&R Computer World, and
Office Depot and Staples locations.

Street price subject to change. Microsoft, Windows
and Windows CE logo are either registered trademarks or
trademarks of Microsoft Corporation in the United States
and other countries. ©1998 Hewlett-Packard Company.



HEWLETT®
PACKARD

Expanding Possibilities

www.hp.com/jornada

LETTER FROM DETROIT

AT THE AUTO SHOW, A BEVY OF HOT NEW RUMORS

Did you hear the one about Ford buying Honda?

Forget about millennium fever. The auto industry has a bad case of merger fever. Or maybe it's just cabin fever. At the blizzard-bound Detroit auto show media preview that ran Jan. 3-6, nobody could talk about anything except who's courting whom and who will go to the altar next. But with thousands of journalists and auto executives with nothing else on the brain save Daimler-

significant merger is imminent in the next 90 days," says DaimlerChrysler Co-Chairman Robert J. Eaton, who knows a thing or two about big automotive mergers. In fact, Eaton claims to know the shape of the next deal: the combination of two European auto makers, neither of which is DaimlerChrysler.

Could it be Fiat-Volvo? "That's my favorite," says Lehman Brothers auto

ence, a Japanese journalist dumbfounded General Motors Chairman John Smith Jr. by asking how GM would compete against the new Ford-Honda combo. After a silence, Smith muttered, "As far as I know, that's just a rumor."

NORTHERN EXPOSURE. No doubt companies being pondered are with everyone would just ogle their new cars and not their stock. "BMW stay the way we are, successful and independent," declared Wolfgang Reitzel, a member of BMW's management board. "There's no reason to merge, should we?" Indeed, BMW has a powerful poison pill to fend off advances, thanks to the reclusive Quandt family's stake. Honda Motor Co. is equally averse to merger. "Our plans are to remain independent, period," says A

CARS, TOO

In snowbound Cobo Hall, BMW showed off its new X5 sedan—and fended off loose talk about any mergers

Chrysler's impressive post-merger stock price and a global industry with too many players, what else could you expect?

The subject of most speculation: Ford Motor Co., with a staggering \$23 billion in cash. And who would be the object of Ford's affection? Rumors at the annual gathering in Detroit's Cobo Hall had Ford buying everyone from BMW to Volvo to Honda, not to mention some of the more homely potential brides of the auto industry, Nissan and Renault.

TANNED AND RESTED. Ford's new CEO, Jacques A. Nasser, couldn't help but smile over all this attention. But he notes that he was lolling on a beach in the Caribbean over the holidays when he was purportedly ensconced in secret meetings to hatch a merger that would make DaimlerChrysler look puny. And while he declines to rule out anything, he makes it clear he won't be pushed into a bad marriage. "We don't want to take our hard-earned cash and use it to pay off someone else's hard-earned debt," he says.

Still, the auto mavens are convinced that the industry—where the top companies are awash in cash and the weaker players are drowning in excess capacity—is due for another megadeal. "A



analyst Joseph S. Phillippi, "because nobody's thought of it before." Then, there's the one about DaimlerChrysler's gobbling up Renault and Nissan in one bite. That one has been denied up and down by DaimlerChrysler. It is in talks to buy Nissan's diesel truck business, but says it's not expanding them to include Nissan's struggling car business.

For every whopper that won't float, there are plenty more. How about Volkswagen acquiring Volvo? That's if Ford doesn't overrun the Swedes first. Or picture this: Ford engineers a double-barrel takeover by grabbing Honda in Japan and BMW in Germany simultaneously. Said one competing Detroit exec: "I'd give the chances of that somewhere between zero and zilch."

But immense improbability—or the absence of any facts—can't stop the loose talk at Cobo. At one press confer-

ence, Honda Executive Vice-President Richard Colliver.

Small and vulnerable Volvo with a harder time keeping the wolf from the bay. With Volvo's largest shareholder, Fidelity Investments, only holding 5% of its outstanding stock, the Swedish auto maker simply lacks the power BMW enjoys. And with only 400,000 sales annually, it also may lack the ability to survive independently in a consolidating global industry. For an exasperated Hans-Olov Olsson, Volvo's North American chief executive, denies any plans to merge. "You have a hostile takeover," he acknowledges. "You cannot predict what will happen." Maybe so, but it sure isn't shoveling snow.

By Keith Naughton and Lowry Miller, holed up at the auto show for BUSINESS WEEK

Fly to Kuala Lumpur with the U.S. airline that knows Asia best.

Seattle/Tacoma

Detroit

Los Angeles

Osaka

Honolulu

Kuala Lumpur

Fly to Kuala Lumpur, Malaysia with an airline you're comfortable with—Northwest. Starting Feb. 25, Northwest will be the only U.S. airline flying to Kuala Lumpur, offering the easiest connections from most of the U.S.

And we've made it even nicer to fly with us. We offer 10,000 WorldPerks[®] Bonus Miles on roundtrip travel in First or World Business Class.SM And 5,000

Beginning February 25, Northwest makes it easier to fly to the jewel of Southeast Asia.

Earn	WorldPerks Bonus Miles on
up to	roundtrip travel in Coach. All you
10,000	need to do is enroll by calling
WorldPerks	1-800-508-2000, ext. 4512.
Bonus	So fly to Kuala Lumpur with
Miles.	the U.S. airline that knows it best.



1-800-447-4747 / www.nwa.com

Terms and Conditions: Must be U.S./Canada WorldPerks Member. Must be enrolled prior to travel. Travel must be completed between Feb. 25 and April 1999. Travel must be on paid fares booked in F/VBC-F/P/C/J. Coach-Y/B/M. WorldPerks Bonus Miles: For F/P/C/J travel, 10,000; For Y/B/M travel, 5,000. Allow 2 to 3 weeks after travel for Bonus Miles to be credited to your WorldPerks Account. Enroll for bonus miles by calling 1-800-508-2000, ext. 4512. © 1998 Northwest Airlines, Inc. Northwest recycles enough paper products in one year to save 16,000 trees.

Picking Up the Pieces With GAB Robins

GETTING BACK IN BUSINESS QUICKLY IN PUERTO RICO
REQUIRED QUICK EXPERT ASSESSMENT OF DAMAGES

When Don Corrigan's plane arrived in Puerto Rico, even 35 years of experience as an adjuster could not prepare him for the destruction that he saw everywhere.

Corrigan, who is an executive general adjuster with GAB Robins, was on the first commercial plane to land on the island after Hurricane Georges ripped through in October. There was no power, no fresh water, and the roads were covered with debris. There were

no working traffic signals. At the airport itself, there was no electricity, the terminal roof was seriously damaged, and glass was blown out of many of the windows.

But Corrigan and his team were there to do a job. Many of GAB Robins' blue-chip corporate clients who form the economic backbone of the island, had suffered serious damage in the storm. To make matters worse, the high point of Puerto Rico's economic year was less than two months away, when tourists flock to the island and residents kick up their heels in celebration of the holiday season. These businesses needed to get up and running again, and fast.

Within 48 hours of Corrigan's arrival, a "SWAT" team of more than 50 adjusters and experts from GAB Robins would join him on the island, assessing damages to such businesses as a food processing plant, a cement plant, the cable television system, a chain of furniture stores, and more than 400 gas stations belonging to one company. One of the island's major breweries suffered more than \$12 million in damage, just weeks before its peak production season when beer sales more than double. A group of 15 kidney dialysis centers needed to get its claims processed so that it could replace damaged equipment and

repair facilities. Time was of the essence. "We don't wait until it's convenient to go to a disaster site," says Corrigan. "We get there when the disaster happens." People and businesses need to start the recovery process as soon as they can." GAB Robins was able to respond so quickly, and in such force because it has a team of more than 100 executive and national general adjusters. These individuals, known as EGAs and NGAs within the industry, are the cream of the adjustment profession. They have decades of experience and education behind them, enabling them to expertly analyze a wide range of fac-



Jim McGee,
Executive Vice
President,
Insurance
Company Services
at GAB Robins

ilities and types of damage. And they are dedicated to their jobs—available 24-hours, providing 72-hour confirmation of inspections with recommendations, providing reports that meet the standards and needs of individual businesses and insurance companies.

"Our people are trained to communicate, to build relationships, and to understand the complex issues that can crop up in a disaster situation," says Jim McGee, executive vice-president, insurance company services at GAB Robins. "We can't give our EGAs and NGAs enough training, education, and experience." On average, he notes, they have 30 years of experience in the field.

The story in Puerto Rico has a happy ending. In spite of \$600 million in damage to the island—there was \$1 billion in damage throughout the Caribbean from the storm—most of the 127 businesses that GAB Robins assessed after the hurricane are up and running again. The tourist season is in full swing. Says Corrigan, "That's our commitment. Mission accomplished."

Clara Van Hast, a New York-based reporter frequently on insurance and risk management.



Typical interior damage caused by wind and water when hurricane Georges battered Puerto Rico.

IN THE EVENT OF AN EARTHQUAKE:

STAND IN DOORWAY.

PRAY.

SEEK SOMEONE WHO THRIVES
IN COMPLEX SITUATIONS.



When multi-layered losses occur, our Executive General Adjusters don't just handle the situation. They control it. Assigned on the basis of past experience and technical expertise, they can coordinate a response to a complex loss with skill and consistency. While we can't lessen the impact of a disaster, our EGAs can make it easier to pick up the pieces. Questions? answers@gabrobins.com or call **888.888.4242**

GAB
bins.

By Lee Walczak

CENSURE MEANS HAVING TO SAY YOU'RE SORRY—BUT HOW

It scarcely matters whether the melodrama, "The Impeachment Trial of William Jefferson Clinton," ends after one brief act or drags on for many. Most Republicans and Democrats agree on the *dénouement*: The President is unlikely to be convicted by the Senate on perjury or obstruction-of-justice charges. "At the end of the day," says Senator Robert G. Torricelli (D-N.J.), "this is going to come down to censure." And that will require some kind of final *mea culpa* to ring down the curtain.

What can the Sultan of Slick say? He must own up to his deceptions in the Monica Lewinsky affair, without giving foes such as Independent Counsel Kenneth W. Starr fresh ammo to prosecute him. Here's what a bipartisan sampling of some of Washington's top wordsmiths would recommend:

■ **The "Full Jimmy."** Former Bush speechwriter Mark W. Davis believes the President must make a dramatic confession—a move backed by onetime White House guru Dick Morris. "He needs the 'Full Jimmy,'" says Davis, "a Swaggart-like apology, with tears." Like the straying televangelist, Clinton must beg for mercy. The suggested script: "I'm sorry. I lied to my family and the American people. I listened to my lawyers and not my heart. I deserve censure. And I promise this will never happen again."

Risky as such a confession is, Davis says it would work because of the President's 70% approval rating. "He can say 'I misled and I lied' without getting into the question of whether it was under oath. People shouldn't accept it," Davis grouches, "but they will."

■ **The modified limited hang-out.** Former Reagan speechwriter Clark Judge thinks appealing to Americans' sense of fair play is smart—but he

would shun un-Presidential groveling.

"I'd say: 'I had an improper relationship with a young woman on my staff. When asked about it by lawyers, I gave answers I thought were artful—but others felt were misleading. I continue to believe that, but recognize that people differ. I can't erase the shame brought on this office. But forgiveness is the American way. And if I remain in

about the future. It would hurt democracy, and we can't risk that kind of instability. Censure is the right course.' And [Clinton] ought have a section that's gracious to accusers," Dolan adds, "though Hillary would probably snip it out."

Michael S. Sitrick, a Los Angeles-based crisis-management expert who has counseled such besieged companies as Food Lion Inc. and Nation

Medical Enterprises Inc. says "Clinton must rein in the idea that the country can't suffer any more. I can say: 'I wish I could back what happened, but I can't. Enormous harm has been done to me and my family. But my Administration has been good for my country. To spare the nation more trauma, I accept censure.'" That way, Sitrick figures, "he puts Republicans on the defensive."

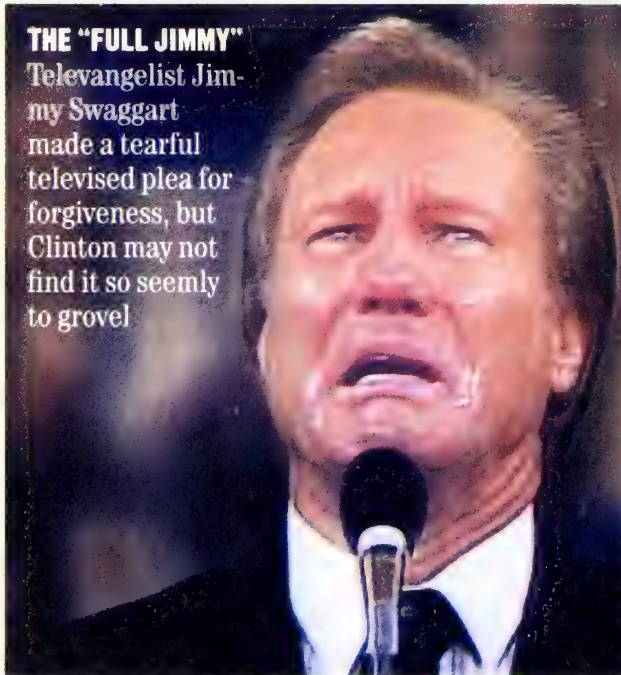
Which course will Clinton take? Not even his top advisers will venture a guess. But they would do well to look up what "the Great Communicator," Ronald Reagan, said by way of apology during the Iran-*contra* scandal. After denying that his administration illegally sold arms to Iran in exchange

for U.S. hostages—and then diverted cash to Nicaraguan *contras*—Reagan finally took responsibility for the scandal in a Mar. 4, 1987, address. "A few months ago I told the American people I did not trade arms for hostages," he said. "My heart and my best intentions still tell me that's not the facts and the evidence tells me it is not." With that, the air rushed out of the Iran-*contra* balloon.

Capital spinmeisters are convinced that Clinton is studying the Gipper script. So when Clinton's time comes to face the cameras, don't be surprised if his confession sounds as familiar. In Washington, you go with what works.

Walczak is BUSINESS WEEK's Washington Bureau chief.

THE "FULL JIMMY"
Televangelist Jimmy Swaggart made a tearful televised plea for forgiveness, but Clinton may not find it so seemly to grovel



this job, I pledge to earn that forgiveness."

■ **The high road.** "No more parsing of what he meant, no more abject confessions," counsels former Clinton speechwriter David Kusnet. The high-roads favor far loftier appeals. "I hope he will say 'The framers of the Constitution set up a system under which imperfect people—rather than divinely guided kings—could form a more perfect union,'" says Kusnet. "We are all imperfect, but public service brings out the best in us."

Anthony R. Dolan, Ronald Reagan's former chief speechwriter, is another devotee of the elevated approach. "Clinton must use the grandeur of the office," he says. Dolan's script: "You can't have a President impeached for this. It's



An **amazing thing** happens when you start
asking questions on a **different level.**

EDITED BY KELLEY HOLLAND

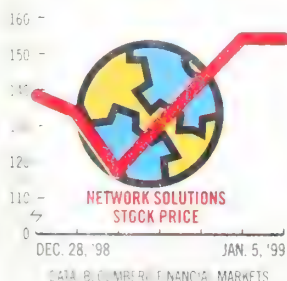
SNAP, CRACKLE, COUP?

UNHAPPY INVESTORS WERE clamoring for change at Kellogg, and on Jan. 5, they got it. The struggling cereal giant announced it was elevating President Carlos Gutierrez, 45, to chief executive officer, replacing Arnold Langbo, 61, whose seven-year tenure has included a steady loss in market share and a string of earnings disappointments. The decision came at an unscheduled board meeting on Jan. 4, but one Kellogg director insists that "there's no way we threw him out." Gutierrez, a 23-year Kellogg veteran, promises to boost performance by spending more on advertising and new convenience foods. Prudential

CLOSING BELL

SPLITSVILLE

Network Solutions, the company that registers Internet addresses—.com, .org, etc.—joined the buoyant Net stock crowd on Jan. 4. After a secondary offering of 4.58 million shares and a 2-for-1 split, the company's shares rose 18% to \$155. The offering reduces the stake of parent Science Applications International from 72% to 45%. But is cash what Network Solutions requires? With the government taking away its registration monopoly, Network Solutions seems to need a new strategy more.



Securities analyst John McMillin applauded the change. "This is a company badly in need of new ideas."

TEXACO WOMEN GET A SETTLEMENT

IT'S SMALL POTATOES COMPARED with the \$176 million settlement that ended a racial discrimination suit against Texaco in 1996. But the oil giant's agreement on Jan. 6 to pay \$3.1 million to 186 female employees who were underpaid from 1993 to 1996—the largest such deal ever reached, the Labor Dept. says—suggests that the feds are trying to step up efforts to combat gender bias in the workplace. The company, which notes there was no federal finding of labor law violations, was targeted by Labor after a 1995 audit. Routine examinations of federal contractors such as Texaco increased from 10 in 1993 to 40 in 1998, says Labor.

RAISING THE BAR ON MEDICARE

IT MAY BE ONE OF THE MOST unpopular ideas in Washington—but it won't go away. On Jan. 5, a commission on reforming Medicare again proposed upping the eligibility age from 65 to 67. The switch would save \$620 billion over 30 years. The idea has been floated before. But a higher eligibility age was shot down in 1997 by the seniors' lobby and employers. The idea stands a slightly better chance this time, but only if the panel also proposes allowing early retirees to buy into the program.

A RAINBOW OF PC COLORS

FORGET BEIGE. TRY TANGERINE—and strawberry and grape. These are the new

HEADLINER: ROBBA BENJAMIN

CASTING A WIDER NET

Robba Benjamin has come a long way from hawking powdered health drinks for vitamin maker Shaklee. Now Benjamin, 51, is on a mission to transform data-networking giant Cisco Systems as the heads of its new consumer-products group.



On Jan. 8, in its first major foray into consumer networking, Cisco was to announce a broad set of partnerships and licensing agreements with the likes of Sony, Panasonic, AT&T, and MCI. The electronics makers will add Cisco technology to gizmos like cable modems and set-top boxes, while service

providers will offer high-speed Net access that works best with Cisco-compatible gear. The company may make life harder for Cisco rival 3Com. Benjamin, former Sprint marketing executive who joined Cisco last August, head its consumer push, caught net fever years ago while running a thrift boost its customer service through technology. She says she aims to "extend the Net revolution into the home. Given today's hunger for Net anything, that idea could go down more easily than a protein shake."

By Andy Reinhardt

colors Apple Computer is rolling out for its iMac computer, which, with its blue translucent skin, broke the beige barrier last summer. The industry reaction? Says Barry Mathis, an industrial-design manager for Hewlett-Packard: "They've kicked us all in the butt a little bit." On Jan. 6, the day after the iMac news, HP unveiled a new blue printer. On Jan. 11, Silicon Graphics will offer a purple PC workstation. And eMachines, a maker of super-cheap Intel-based PCs, will unveil a \$600 iMac lookalike this spring.

ANOTHER NEW SIDEKICK FOR AT&T

AT&T'S \$48 BILLION ACQUISITION of cable giant Tele-Communications last June offered a tantalizing promise: Using TCI's coaxial TV cables, AT&T could bypass local phone companies to offer next-generation voice and Internet ser-

vices. It would also save the \$6 billion a year in local phone company access to their lines days after the merger was approved by the FCC, taking the first step toward that vision: On Jan. 6, working giant Cisco Systems announced it had won an exclusive contract to provide AT&T with equipment for its first network that will carry voice traffic—as well as data and Internet data—over cable.

ET CETERA...

- United is reestablishing a big East Coast presence with Washington Dulles Airport.
- Intel on Jan. 11 will unveil its next Pentium chip, the Pentium III.
- Boeing ended 1998 with a record 559 deliveries, more than promised.
- Walt Disney CEO Michael Eisner's bonus was halved as profits lagged.



It changes your ^{whole} perspective.

Wharton Executive Education—it's how leaders around the globe push the boundaries of their thinking. With 195 standing faculty, Wharton is unmatched in the breadth and depth of its expertise across business disciplines. This knowledge, experience and insight can help you pose the questions. What you'll get is a fresh perspective on your organization, your career and your life.

Winning in the Next Millennium:
Strategies for Driving Change
April 6-9, 1999

The Essentials of Management
May 2-7 and June 6-11, 1999

Wharton Institute of Executive Education
215.898.1776 or 800.255.EXEC ext. 2259
215.898.2064 fax (attn. dept. 2259)
<http://wh-execed.wharton.upenn.edu/2259.cfm>

Critical Thinking:
Real-World, Real-Time Decisions
March 28-31, 1999

Implementing Strategy
April 25-30, 1999

Wharton

Executive Education

The Wharton School
University of Pennsylvania



INTELLIGENCE
IS THE DIFFERENCE
BETWEEN A COPIER
AND A SOLUTION.

It took a lot of intelligence to come up with the first digital copier that could copy and fax. It took even more intelligence to come up with the first

digital copier that could copy, fax and print. Which kind of makes you wonder, if Leonardo da Vinci were around today, would he be working for us?

AficioTM

WE LEAD. OTHERS COPY.

To find out why we are the No. 1 maker of B/W digital copiers in the US and Europe, please contact 1-800-63-RICOH or visit our home page at www.ricoh-usa.com

RICOH
Image Communication

BY DOUGLAS HARBRECHT

BACKLASH AGAINST BEIJING BUILDING

As Corporate America's fondest hope that 1999 would be Year of the Cuddly Panda. China under Jiang Zemin would relax its trade barriers, join the World Trade Organization, and finally win permanent status as a normal trading partner. Now, those hopes are dashed, and the year is shaping up as the worst for U.S.-China relations since the 1989 massacre in Tiananmen Square.

Kindling the fire: a still-classified congressional report detailing decades of 20 years of theft of sensitive U.S. technology by

In addition, Beijing is in the midst of its periodic crackdowns on dissidents. Protectionist measures and currency devaluations by the Middle Kingdom are making life harder for U.S. businesses to operate in. And a trade imbalance in China's favor continued to surpass \$60 billion in 1999.

The first casualty may be cancellation or postponement of the planned April summit with Prime Minister Zhu Rongji, whose visit across the U.S. would likely be strewn with orders for generators and tractors. A White House spokesman has already expressed "regret" at the "groundless" espionage charges in the 700-page report of a special panel headed by Representative Henry Hyde (R-Calif.).

U.S. Tensions will get worse come spring when unlikely allies such as AFL-CIO President John J. Sweeney and conservative Gary Bauer mount protests to mark the anniversary of Tiananmen Square. With the annual sessional debate over extending most-favored-nation trading status to begin in May, Beijing's critics on Capitol Hill will try to decry the techno-treachery detailed in Cox's report. "It's a disaster for China in jeopardy? Not really. But behind the rhetoric lies a political strategy. Some conservatives portray China as a security threat, especially because of weapons sales to Pakistan and Iraq. At the same time, it's meant to cast President Clinton—and Presidential con-

tender Al Gore—as pushovers for promoting stronger trade while turning a blind eye to Beijing's ulterior motives.

Even though both GOP and Democratic Administrations were cited for lax oversight in the bipartisan Cox report, Clinton's critics will use it to press for tighter export controls. Their hand has been strengthened by disclosures that the Commerce Dept. failed to police satellite makers Loral Corp. and Hughes Electronics Corp. Although both companies strongly deny any wrongdoing, the Cox report charges that they supplied missile technology to the Chinese. "Engagement will no longer be a synonym for zero criticism of Communist Party offenses," Cox told BUSINESS WEEK.

Sources who have seen the report say it contains grave charges that China stole U.S. government secrets and raises questions about the level of cooperation between Beijing and U.S. companies. American business will suffer from the fallout. Says Jay Hu of the U.S. Information Technology Office, a Washington-based industry group: "Further controls will just encourage China to shift to Japanese and European companies."

Already, new restrictions on converting Chinese currency are hampering U.S. multinationals' efforts to invest and turn a profit.

The result: A recent U.S.-China Business Council survey of over 50 U.S. companies in China found 80% facing sales cutbacks and 50% reconsidering, delaying, or canceling investments. "If the political environment is degraded, commercial relations can't escape harm," says Council President Robert A. Kapp.

The two countries have weathered rhetorical storms before, without damage to their trade relations. But as details of the Cox report leak out, China's critics will become more determined. And instead of the Year of the Panda, 1999 could well turn out to be the Year of the Wounded Dragon.

By Paul Magnusson, with Lorraine Woellert, and Dexter Roberts in Beijing



HAPPIER DAYS: Jiang, Clinton

CAPITAL WRAPUP

INNER WITH DENNY

President Clinton must be missing the chief of Staff Erskine B. Bowles. Pressman Bowles was the only White House aide trusted by Trent Lott. The Majority Leader rarely talks to anyone but Bowles. Bowles' replacement John D. Podesta, says say. But Podesta's brother, John, is an old pal of new House Speaker J. Dennis Hastert (he donated \$100,000 to his last campaign). John, a gourmet chef, has even cooked for

NAVIGATING TO NOWHERE

► After sinking nearly \$450 million into developing a \$3 billion satellite-navigation system for commercial jets, the Federal Aviation Administration has put the project on hold until September, 2000. The FAA says the system will not meet agency safety standards. But others familiar with the program say Administrator Jane F. Garvey may be making a strategic retreat to do some rethinking. The 14-month delay could cost

taxpayers about \$3 million a month, FAA officials say.

GIVING PEACE A CHANCE

► New FDA Commissioner Jane E. Henney is waving an olive branch at Congress and other industry. Two months into her job, agency officials say she wants to mend fences ripped down by her activist predecessor, David A. Kessler. Her No. 1 priority: implementing modest FDA reform legislation passed by Congress last year.

A YEAR OF FRESH DISASTERS?

Japan's rescue efforts seem to be making things worse

This year would be different. That's what dispirited Japanese heard from Tokyo officials as they headed off to the hot springs and sal resorts for the extended New Year holidays. After eight years of stagnation, 1999 would be the turnaround year. The ruling Liberal Democratic Party was setting aside \$700 billion to fix the crippled banking system, bring tax relief to companies and consumers, and kick the broader economy into higher gear with a massive public investment drive.

Yet as the Japanese drift back to their offices and factories after the break, troubling developments are already marring this boosterish outlook. The government's plans to raise \$45 billion in bonds are driving bond prices steeply lower, forcing rates to double since last fall. That raises the specter of a debt-market crash that could batter consumers and banks alike. And in a paradoxical twist, the rising rates are attracting foreign bond investors looking for higher yields. That has touched off a 24% surge in the yen since August. The result is sending Japan's manufacturers, exporters and a strong currency will do to their exports, their only source of profits these days. Instead of being the start of a recovery, 1999 is already

looking like a year of fresh disasters.

Jittery investors shaved more than 4% off the Nikkei during its first two trading sessions this year, until the government sparked a rally by signaling its intention of selling yen. But the overall outlook remains bearish. The basic fear is that Japan has stretched its public finances to the breaking point.

To pay for the \$700 billion salvage effort, Prime Minister Keizo Obuchi plans to flood the market with bond offerings, some 25% more than last year—a move that will crowd out other borrowers. He has no choice, since the government badly needs the money. Japan's severe recession has clobbered tax revenues and resulted in a budget deficit projected at 10% of gross domestic product, among the highest in the developed world.

The new bond offerings are just the latest in a string of debt issues by the government to cover its mounting deficits. Until now, a ready market kept bond prices rising. Banks liked the safety of government paper. The Ministry of Finance, which had access to Japan's \$2 trillion-plus postal-savings system, regularly picked

up a big chunk of any government issue. The Bank of Japan was buyer, too.

But now the government's usual customers have other things to do with their money. Finance Minister Miyazawa has petrified bond traders announcing that the MOF is cutting

To pay for the \$700 billion salvage effort, Tokyo has to flood the market with bond offerings—driving out other borrowers



and purchases of new government bonds in half. Instead, the ministry is urging corporate bonds to ease the crunch, and helping state-run banks like the Japan Development Bank as they bail out such cash-starved companies as Nissan Motor. And the mood of Japan is not in the mood to buy more government bonds.

PAPER. Meanwhile, Japan's private banks, saddled with nearly \$1 trillion in dud loans, don't have much ready cash left to spend on bonds. And of course, by flooding the market with new government bonds, the government creates a bond glut, raises its deficit, and hurts its own credit quality. Since government paper is a lot riskier than last fall, yields have risen.

Yields of 2% or so wouldn't matter much if the Japanese economy were in such a fragile state. Already, the rate in rates is trickling down into the real economy. Major consumer electronics companies such as Sanwa Bank Ltd. and a Bank Ltd. have pushed up

home mortgage rates nearly one percentage point, to around 4%—very high given the weakness in consumer spending. That's going to further crimp housing demand, just when ordinary Japanese are feeling the impact of lower bonuses and wages.

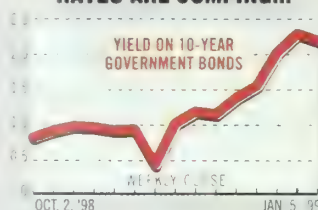
Corporate borrowing costs are also sure to rise at a time when cash flow and earnings are under pressure. A 100-basis-point rise in rates could lower corporate earnings by 11% this year, according to some estimates. "The rise in funding costs is really going to drive down business sentiment even further," figures Kazuko Mizuno, an economist with Warburg Dillon Read. A Bank of Japan survey shows confidence among executives is already at a four-year low.

Higher lending rates do produce higher profits for banks. But in Japan's dysfunctional economy, the banks have relied heavily on gains in their bond portfolios to prop up earnings. Morgan Stanley Dean Witter economist Robert A. Feldman fears the current drop in bond prices has probably wiped out the unrealized earnings of the banks' estimated \$600 billion worth of bond holdings. If so, they will have to write off those losses.

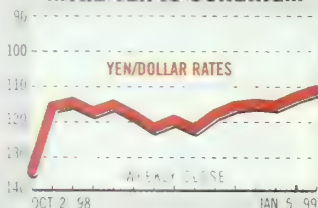
Such write-offs will put even more pressure on banks' earnings.

JAPAN'S PLIGHT

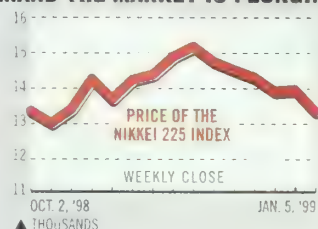
RATES ARE JUMPING...



...THE YEN IS SURGING...



...AND THE MARKET IS PLUNGING



DATA: BLOOMBERG FINANCIAL MARKETS

ings, force them to call in even more loans, and so worsen the nation's credit crunch. Japan's new bank watchdog, the Financial Supervisory Agency, is already leaning on lenders to clear their loan books of questionable borrowers or face the fate of recently nationalized Nippon Credit Bank Ltd., which was slow to admit the extent of its nonperforming loans. That's why major construction companies such as JDC Corp., which recently filed for bankruptcy with \$3.3 billion in liabilities, are failing left and right.

What an unhappy new year. And there's more. Perhaps the biggest hit from the interest-rate swing will be a sustained strengthening of the yen against the dol-

lar, as adventurous foreign investors pick up higher-yielding Japanese bonds. Japanese paper looks more attractive now that central banks in Europe and the U.S. have cut their benchmark rates.

The result has been a boost in the yen to almost 110 to the dollar, its strongest level in 19 months. The stronger yen means more-expensive Japanese exports, from copiers to Lexus sedans. The stocks of big exporters such as Bridgestone, Honda Motor, and Canon have taken a drubbing from investors worried about overseas earnings. Tiremaker Bridgestone, for example, had assumed a rate of 129 yen to the dollar when it made its profit forecast for this year. If the yen stays at current levels, profits could be \$144 million lower than forecast.

Small wonder that economists are slashing their forecasts for Japan. The betting is that the economy will contract 1.3% in 1999. Maybe all this government spending will eventually lift the economy. But as the new year starts, Japan's rescue plan is looking perilous indeed.

By Brian Bremner in Tokyo



COMMENTARY

By Joyce Barnathan

HOW THE TYCOONS ARE HOBBLING HONG KONG

When Li Ka-shing talks, Hong Kong listens. So when the billionaire tycoon recently complained that local politicians were souring the business climate, he rattled a community already shaken by its worst recession in decades. Although his criticism was vague, many believe he was targeting outspoken members of the populist

the influence property tycoons wield.

Just look at the record of Tung, who is tycoon-friendly. He has been governing during an unprecedented meltdown, but he and top bureaucrats have made things worse by damaging Hong Kong's policy of nonintervention. Previously, the government provided the infrastructure needed for business to thrive, but steered

market—which benefits the tycoons.

Perhaps the most egregious decision was the government's purchase of \$15 billion worth of Hong Kong stocks in August, many of them property companies. While the Hong Kong Monetary Authority claims it moved to stave off speculators and not prop up the bourse, it severely damaged the city's reputation for hands-off rule. Now, the government is a major shareholder in companies run by heavyweights such as Li. The potential conflicts of interest are enormous.

Underpinning these actions is the belief that property is the true source of Hong Kong's prosperity. Yet, in reality, it is Hong Kong's weakness. Property companies dominate the Hang Seng Index. Bank portfolios have tremendous exposure to the real estate market. The government itself depends on property-related income for an estimated 50% of its revenue. Such a distorted market may have been acceptable when interest rates were low and money was cheap. It is not any longer. "Hong Kong is at the end of an era," says Barker. This is not a cyclical downturn in property prices, but a "multiyear downtrend," he says.

NOSTALGIC. That leaves the city in the throes of an identity crisis: if not property, then what? There is talk of turning Hong Kong into a high-tech hub. But the best option is to step back efforts to become the business service center for China. The sooner Hong Kong broadens its economic base away from property, the faster it will revive. There is more pain to come, but it's better than denial.

The real issue for tycoons like Li is not whether democracy is harming Hong Kong, but whether Hong Kong can remake itself. The tycoons may be nostalgic for the old days when the British assured that political and business interests were nearly identical. But Hong Kong isn't a colony anymore—and it shouldn't behave like one. Pandering to the property developers is not only a relic of a bygone era, but a dangerous path to take.

Asia Regional Editor Barnathan covers Hong Kong.



TUNG SPEAKS: His market interventions have favored the big developers

Democratic party. Because of the shift in political sentiment, Li said, he was unlikely to invest in a new \$1.3 billion project in Hong Kong.

Li may be lamenting the business community's lack of clout, but how much more influence does he want tycoons to have? After all, China backed shipping tycoon Tung Chee-hwa to become Hong Kong's first chief executive. The legislature is also designed to favor pro-business groups. Li is apparently annoyed that some Democrats are protesting his intention to sue buyers who defaulted on apartment purchases. Fair enough: Li has every right to take them to court. But for him to conclude that his woes stem from Hong Kong's exercise of democracy is puzzling. If anything, Hong Kong may be a less desirable place to do business now because of

clear of picking winners and losers.

But in the past year, the government has intervened in ways that favor the big property tycoons. It has stopped releasing state land onto the market to keep prices from falling further. Tax breaks and subsidies to new buyers now encourage apartment purchases. Yet while property prices have dropped 50%, they are still extremely high. Dresdner Kleinwort Benson chief economist Geoffrey Barker estimates that it would take another 50% drop to reach levels the average resident could afford. One legitimate concern is that another plunge in real estate prices will endanger banks. But instead of figuring out how to let prices drop to affordable levels while restructuring the banks, the government just wants to maintain the

men will have an isolated erection problem at some time in their lives, but for others it happens more frequently. If the ability to respond naturally to your partner has become a recurring problem, you may be suffering from a treatable medical condition called **erectile dysfunction (ED)**, also known as *impotence*. The following questions and answers are designed to give you a brief introduction to the causes of ED and the various treatment options available. If you believe you are suffering from ED, or want to know more about the condition, talk to your doctor or other healthcare professional.

Erectile dysfunction: what every man should know

What is ED?

Erectile dysfunction is the consistent inability to achieve and/or maintain an erection sufficient for satisfactory sexual activity. That means not just an occasional problem, but one that has been occurring repeatedly for a significant amount of time. It's a widespread condition, shared by approximately 10 million men in the United States.

What causes ED?

It was once believed that ED is all in your head, or just an inevitable result of growing older. Actually, the majority of ED cases are associated with medical conditions or events, including some that are age-related. The most common risk factors for ED include:

diabetes, high blood pressure, hardening of the arteries, high cholesterol

heart disease or illness, such as spinal cord injury, multiple sclerosis, depression, stroke, or surgery for the prostate or colon

side effects of medications that may bring about ED as an unwanted side effect

cigarette smoking or alcohol/drug abuse

psychological conditions, such as anxiety and stress

If you want to know more about ED, talk to your doctor.

Can erectile dysfunction be treated?

The good news is that, regardless of the cause, the vast majority of ED is treatable. Patients have a variety of treatment options from which to choose, including oral medication, hand-held vacuum pumps, self-injected medications, pellet suppositories, and surgical implants.

Can anyone use these treatments?

It's important to remember that these treatments are not for everyone, but only for men diagnosed with ED. You and your doctor can determine the appropriate treatment for you. Because sexual activity can be demanding on the heart, you should talk to your doctor before using any treatment for ED.

How do I know if I have ED?

If you have erection problems, you probably already know it. But before your condition can be treated, you need to be diagnosed by your doctor. There is no need to be embarrassed or ashamed when discussing ED with your doctor. He or she has probably diagnosed and treated ED many times. Your doctor can provide you with understanding, support, and best of all, information.

To diagnose ED, doctors typically ask a few specific questions and give a routine physical exam. This should help your doctor arrive at a diagnosis. Before starting any treatment for ED, ask your doctor if your heart is healthy enough to handle the extra strain of having sex.

Based on this information, you and your doctor will decide on the treatment that is best for you.

REMEMBER:

ED is a common medical condition.

It's not an inevitable result of growing older.

ED is treatable with a variety of methods.

Only your doctor can prescribe the appropriate treatment.

DEALS

SNAPPING UP SOUTH AMERICA

As multinationals buy in, companies modernize

For the holidays, the multinationals went on a shopping spree in Latin America. On Christmas Eve, New Jersey-based energy group GPU Inc. agreed to buy Argentine electricity distributor Emdersa for \$435 million. Days earlier, French supermarket giant Carrefour said it would take over Brazilian department store chain Lojas Americanas. In Chile, Citigroup agreed to buy the country's No. 2 consumer-finance company for \$83 million. In just the last two weeks of the year, multinationals announced no fewer than 10 major acquisitions in the region.

They are buying on the cheap: Wild stock market swings have slashed 30% or more off prices. But they are undeterred even by the ongoing risk of devaluation in Brazil and the prospect of economic slowdowns throughout Latin America. That's because the multinationals, often major players in the region, are not just bottom-fishing but are looking to strengthen their stakes in key markets (chart). "We're talking about strategic, long-term buyers," says Bernardo Parnes, managing director of investment banking for Merrill Lynch & Co. in São Paulo.

CASHING IN. The deals are drawing chunks of direct investment into the region, in contrast to the dumping of assets by portfolio investors in Latin America and other emerging markets. Announced Latin mergers and acquisitions jumped to \$85 billion last year from \$73 billion in 1997, although in Asia, M&A activity fell to \$78 billion from \$80 billion in 1997. Foreign buyers put up 63% of the dollars for the Latin deals, according to Newark (N.J.)-based Securities Data Co., which tracks such activity. Brazil and Argentina accounted for 75% of the region's M&A total.

Wall Street firms are cashing in. New York-based M&A gurus Corrado Varoli of Morgan Stanley Dean Witter and Al-



berto Verme of Salomon Smith Barney helped put together the region's biggest deal ever, the breakup and auction of Brazilian phone company Telebrás for \$19 billion last July. The sale helped make Salomon and Morgan Stanley the top M&A advisers in Latin America last year with announced deals worth \$25.6 billion and \$24.7 billion, respectively. The plunge in asset prices has put buyers firmly in the driver's seat. In a September privatization auction, Belgian utility Tractebel paid \$801 million for a 42% controlling stake in Brazilian elec-

tricity de France. the workforce of 10,000 to 6,600 introduced the company's first profit-sharing plan in 1999. The buyings will almost surely continue through 2000. "A lot of owned companies thought they could hang on now because access to capital can't grow," says Stoeppelwerth, head of Latin American research for Robert Fleming & Co. in São Paulo.

HANG ON. For Latin policymakers, downside to the foreign influx is a rise in unemployment as the new owners slash payrolls. But typically to improve conditions for employees remain. The consortium that earlier over Rio de Janeiro electric Light, led by AES Corp. and Hughes Industries Inc. of the U.S. with

MULTINATIONALS' LATIN SHOPPING SPREE

BUYERS	TARGET	ACTIVITY	PRICE
TELEFONICA/SPAIN, MCI WORLD.COM/U.S. & OTHERS	Telebrás/Brazil	Telecom	\$19 billion
ABN AMRO/NETHERLANDS	Banco Real/Brazil	Banking	2 billion
CSFB/U.S.-SWITZERLAND	Banco Garantia/Brazil	Banking	675 million
GPU/U.S.	Emdersa/Argentina	Electric utility	435 million
CITIGROUP/U.S.	Corp. Financiera Atlas/Chile	Consumer finance	83 million

tric power generator Gerasul. On Dec. 30 it bought an additional 9% for just \$79 million, less than half the price per share it paid three months earlier.

In the bidding for strategic assets, multinationals such as GPU have gained an extra edge from the tightening of global credit markets, which is weeding out smaller rivals. "Now, instead of getting 15 potential bidders you get eight," says GPU's chief financial officer, Bruce Levy. "And no one is paying 50% over the second-highest offer."

The prize, despite the economic volatility of emerging markets, is the prospect of reaping better returns on

tricity de France. the workforce of 10,000 to 6,600 introduced the company's first profit-sharing plan in 1999.

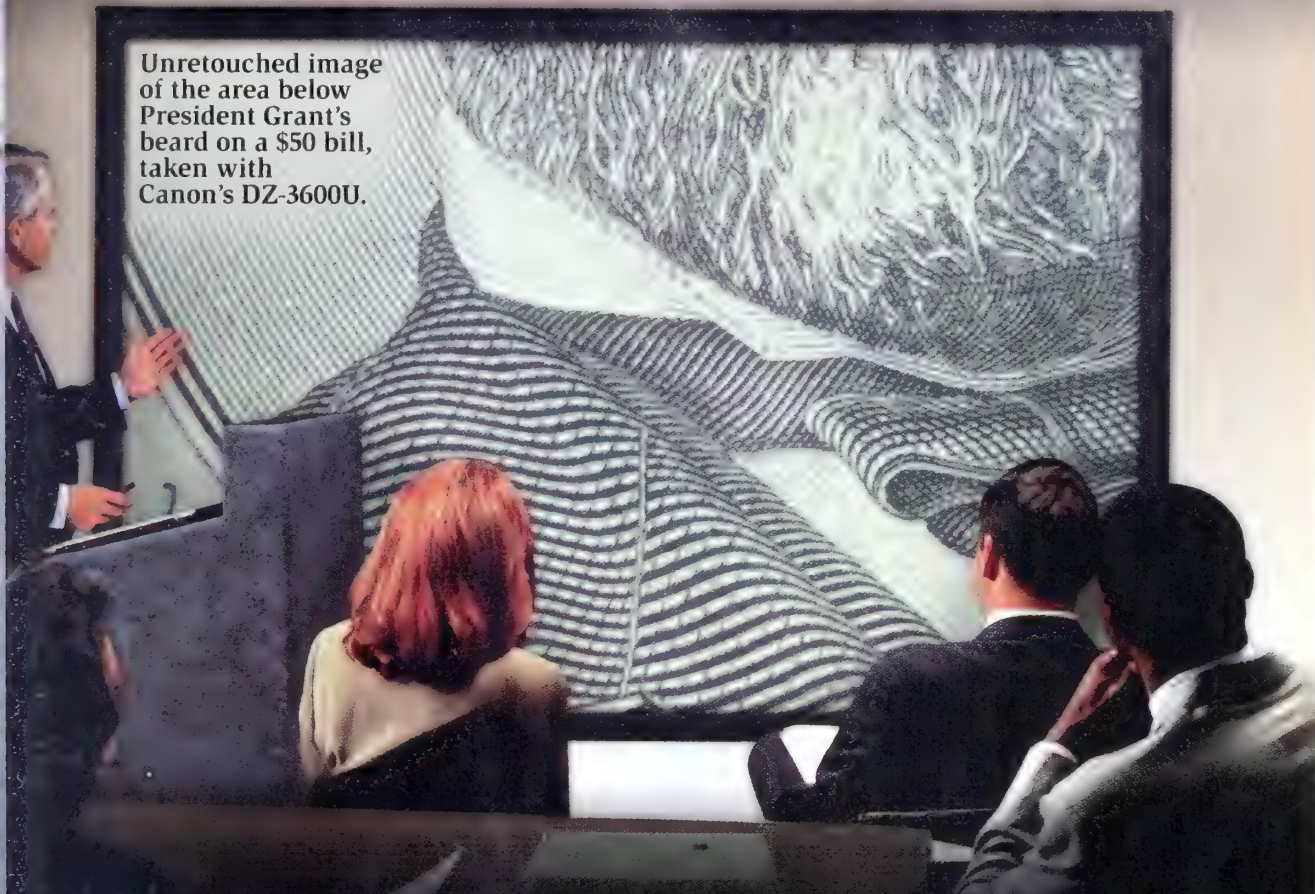
The buyings will almost surely continue through 2000. "A lot of owned companies thought they could hang on now because access to capital can't grow," says Stoeppelwerth, head of Latin American research for Robert Fleming & Co. in São Paulo.

Not all foreign companies are able to ride out the Latin slowdown. On Dec. 23, U.S. sewing machine maker Singer Co., suffering operating losses in Brazil, said it had its 47 remaining retail stores in the country to Brazilian investors. Now, more multinationals are retreating in Latin America. The result is a business landscape that increasingly looks like the rest of the world's.

By Ian Katz in São Paulo

Canon's Breakthrough Technology Maximizes Your Projector's Output.

Unretouched image of the area below President Grant's beard on a \$50 bill, taken with Canon's DZ-3600U.



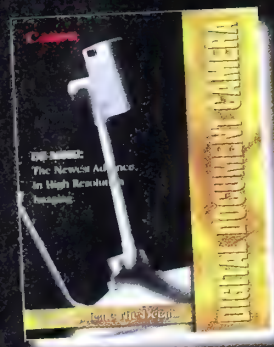
Our New Digital Document Camera Revolutionizes Presentations With Exceptional Price/Performance.

In as little as 4 seconds, Canon's DZ-3600U captures a high resolution digital image (10 x 1424 pixels) from a critical chart, a photograph, an entire 8 1/2" x 11" document (down to 8 pt. type), a 3-D object or 35-mm film. For quick integration into your presentation. Now, projector users can maximize their high resolution output, while maintaining image quality and detail that compares to a 3-CCD camera.

Incorporating Canon's breakthrough Parallel technology, the DZ-3600U makes

high-resolution, detail-sensitive imaging affordable by making one CCD do the work of three. Intricate details, invisible to the naked eye, (1600% zoom magnification) are captured and clearly displayed even to the back row (without constantly zooming in), or transmitted across your network anywhere in the world.

The DZ-3600U features a Universal Serial Bus (USB), for instant 'plug and play' with any USB compatible PC, and incorporates all the most-wanted features you've come to expect from Canon's exceptional imaging tools.



FREE Brochure Available.

**FOR PURCHASE AND TECHNICAL ASSISTANCE
OR ADDITIONAL INFORMATION
CALL (516) 328-5960.**

E-mail us at vcstd@cusa.canon.com

Website @ <http://www.usa.canon.com>

Canon

VISUAL COMMUNICATION SYSTEMS DIVISION

Canon is a registered trademark of Canon, Inc. ©1999 Canon USA, Inc.

EDITED BY JOHN TEMPLEMAN

JAPAN'S PREMIER IS A SURVIVOR, BUT IS HE A REAL REFORMER?

When mild-mannered Keizo Obuchi became Prime Minister in July, opponents derided him as an ineffectual Liberal Democratic Party hack. Few thought he would last out the year in office. Initially, Obuchi, 61, confounded them. His administration coaxed financial reforms and a \$500 billion bank bailout through the Diet. That enabled him to place debt-laden Nippon Credit Bank under state control. He also cobbled together a \$200 billion package to prop up the faltering economy with new public spending and funds to soften the credit crunch on small businesses. Now, he is pushing \$90 billion in corporate and income tax cuts for fiscal 1999.

But his big achievements may already be behind him. Skepticism still abounds about Obuchi's ability to push through drastic reforms, such as sweeping deregulation of finance and telecommunications, corporate restructuring, and job-retraining programs, that Japan badly needs to escape its dire economic straits (page 56). Most analysts figure he still lacks both the guts and political power to do so.

DARK AGES? Obuchi clearly faces an uphill battle selling reform inside the LDP. To most party barons, Obuchi's main job is to delay a general election as long as possible and shore up the "iron triangle"—the corrupt links between the LDP, big business, and bureaucrats—that forms the backbone of the economy. "The LDP will never carry out the type of reforms Japan needs," says centrist political columnist Minoru Morita. Indeed, he worries that with another LDP win, "Japan will enter the Dark Ages."

In fact, Obuchi isn't fully his own man. He's part of the LDP's "ruling troika" in which Former Prime Minister Noboru Takeshita calls the shots, along with one of his closest lieutenants, Hiromu Nonaka, the chief Cabinet Secretary. Nonaka lined up support for the bank bailout, for instance. The two would certainly ditch Obuchi if he were to break ranks.



OBUCHI: Not his own boss

"Obuchi's role is not to drive policy, but to listen to Takeshita and Nonaka," says John Neuffer, a political analyst at Tokyo's Mitsui Marine Research Institute.

Indeed, it was Nonaka—with Takeshita's blessing—first approached former LDP bigwig Ichiro Ozawa, now with the opposition Liberal Party, with the idea of negotiating a ruling coalition of the two conservative parties. Such an arrangement would be a voting juggernaut, controlling two-thirds of the Lower House and nearly half of the Upper House. Politics

it could be used to ram major reforms through the Diet. But it's far from clear that Obuchi, who is aiming to seal a deal with Ozawa by mid-January, would use it that way. He might get Ozawa to drop his demands to suspend the consumption tax—which reformers want as a precondition for any coalition, for example.

Besides, Obuchi will be hard pressed to drum up support in his own party for any deal with the Liberals. Many LDP heavy hitters see Ozawa as a renegade. They never forgave him for mounting a coup that split the party and contributed to its shocking 1993 electoral defeat. The opponents are attempting to derail alliance talks by opposing reforms that Obuchi wants, such as allowing Japan's Self-Defense Forces to take part in U.N. military missions and reducing the size of the 752-seat cabinet.

Meanwhile, the main voice for radical reform, the opposition Democratic Party of Japan, is muted. Its leader, Naoto Kan, is struggling to restore his popularity, dented by allegations—which he denies—of his involvement in a sex scandal. Voted out of office, Obuchi is under far less pressure to enact reforms while the Prime Minister may continue to surprise by using political survival tactics, promises he has made to lead Japan out of its dark days are already ringing hollow.

By Irene M. Kunii

GLOBAL WRAPUP

MURDOCH JUMPS INTO RUSSIA

► Setting his sights on Russia, Rupert Murdoch is joining media tycoon Boris A. Berezovsky in taking control of advertising on the country's biggest television network. A new ad agency set up by Berezovsky and Murdoch's News Corp. has the exclusive rights to sell airtime on the ailing government-controlled ORT network.

The venture isn't likely to make profits at first, as Russia's economic collapse has halved TV ad revenues. But Murdoch could be positioning him-

self to buy a stake in ORT, in which the Russian government holds a 63% stake. If the Kremlin offers ORT shares to raise cash, Murdoch and the politically connected Berezovsky—already a key minority shareholder—could well buy them up.

WARNING JOLTS SAP SHARES

► A profits warning from German software giant SAP chopped 20% off its share price on Jan. 5. And with Business around the world scurrying hard to finish Year 2000 fixes this year, the market for the vast business

systems that SAP sells is getting jittery. But, however painful the situation is for SAP, its rivals could fare even worse.

One key competitor, The Baan Company of Holland, is wrestling with investor legal suits, rotating management, and growing losses. PeopleSoft and Oracle, while stronger, control only a fraction of the installed base of SAP. When the market finally recovers, analysts point out, SAP may emerge with even more than its current one-third share of the enterprise-software business.

COMMENTARY

By Paul Raeburn

SAVE THE SPECIES—BUT ADD INCENTIVES

It looks good on the back of the quarter or the dollar bill, but the bald eagle isn't an animal you would like to meet face-to-face. It's a fierce predator, with a six- to eight-foot wingspan, razor-sharp talons, and pale, menacing eyes. In 1782, when the bald eagle became the American symbol, it ruled the skies—25,000 to 75,000 patrolled what would become the lower 48 states. By the early 1960s, however, fewer than 450 nesting pairs remained. Defenseless against human predators, the bald eagle was approaching extinction.

Twenty-five years ago, on Dec. 28, 1973, President Richard M. Nixon took decisive action to prevent that. He signed the Endangered Species Act, which had rolled through Congress on a vote of 92-0 in the Senate and 355-4 in the House. "Nothing is more priceless and more worthy of preservation than the rich array of animal life with which our country has been blessed," Nixon said. Despite the overwhelming support for the new law, it quickly became the most reviled piece of environmental legislation ever enacted. Almost immediately, it threatened to shut down construction of the Tellico Dam in Tennessee, because the dam would flood streams containing a small, endangered variety of perch known as the snail darter.

ED RANCHERS. With his signature, Nixon had protected not only the bald eagle but also scores of other weird animals and plants unlikely to show up on American currency—including the giant kangaroo rat, the North Cave pseudoscorpion, and the furbish seawort. There are now 1,177 species on threatened and endangered lists. Environmentalists seized on the act as a powerful weapon to protect sensitive habitats; meanwhile

developers, loggers, and cattle ranchers, to name a few, howled in pain. Congress had to pass a special exemption to the Act to allow completion of the Tellico Dam, but no sooner had it done so than the next crisis appeared: controversy over protecting the spotted owl threatened to close down logging on millions of acres of forest in the Pacific Northwest.

"The Endangered Species Act is the most visionary environmental law that we have ever passed," says Interior Secretary Bruce Babbitt. "It goes in a really comprehensive way straight to the issue: How do we live, utilize, and develop in harmony with the landscape and creation?"

Conservative critics have denounced the Act, arguing that it gives Fish & Wildlife Service biologists

unlimited power to block development—without paying for it. They say that if the government cuts land values by blocking development, it should compensate the owners.

Environmentalists criticize the Act for doing too little, too late. They have filed numerous lawsuits to force the Fish & Wildlife Service—part of Babbitt's Interior Dept.—to tighten and speed enforcement.

ECO-COMPROMISE. The Fish & Wildlife Service protests that it has been given an impossible task: Its current budget for endangered species is \$129.9 million, perhaps one-tenth of what it needs to do its job, says Gerry A. Jackson, assistant director for ecological services.

Babbitt has done a lot in recent years to find a compromise. Flexible interpretation of the Act now allows landowners and developers to destroy some endangered-species habitat if they agree to preserve or restore habitat for the species somewhere else. "Biologists need to appreciate that you can't reach perfection," Babbitt says. Adding more incentives, such as tax breaks, could also ease critics' concerns.

For all its shortcomings, the Act has slowed the decline of imperiled species. A few have been saved, including the bald eagle, which is likely to be removed from the list of threatened species this summer.

(The banning of DDT was also critical to the eagle's survival.)

The Act has also helped preserve vital patches of natural habitat that would otherwise have surely been destroyed. And it has helped ensure the safety and comfort of human life, casting a cold light on those weird little creatures that, like miners' canaries, might help us foresee what we need to protect.

*Raeburn is
BUSINESS WEEK's
senior editor for
science and
technology.*

The Endangered Species Act helped the bald eagle. But it's too focused on punishment



Is the
center
of the
computing
universe
shifting?

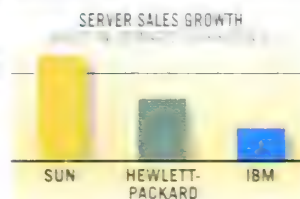


SUN P

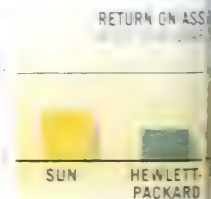
Ever from 1982 to 1996, the past 14 years, Chief Executive Scott G. McNealy of Sun Microsystems Inc. has gradually made a pilgrimage to the Dulles (Va.) offices of America Online Inc. His quest was to get those SUN server computers to help run its world-leading online service. Each time, McNealy's mission was turned flatly down, starting with machines from the likes of Hewlett-Packard Co. and Silicon Graphics Inc. But McNealy's persistence finally paid off in late November, when Case wanted to buy Netscape Communications Corp.'s popular portal Web site, and he needed Sun's help in handling the Internet pioneer's electronic-commerce software business.

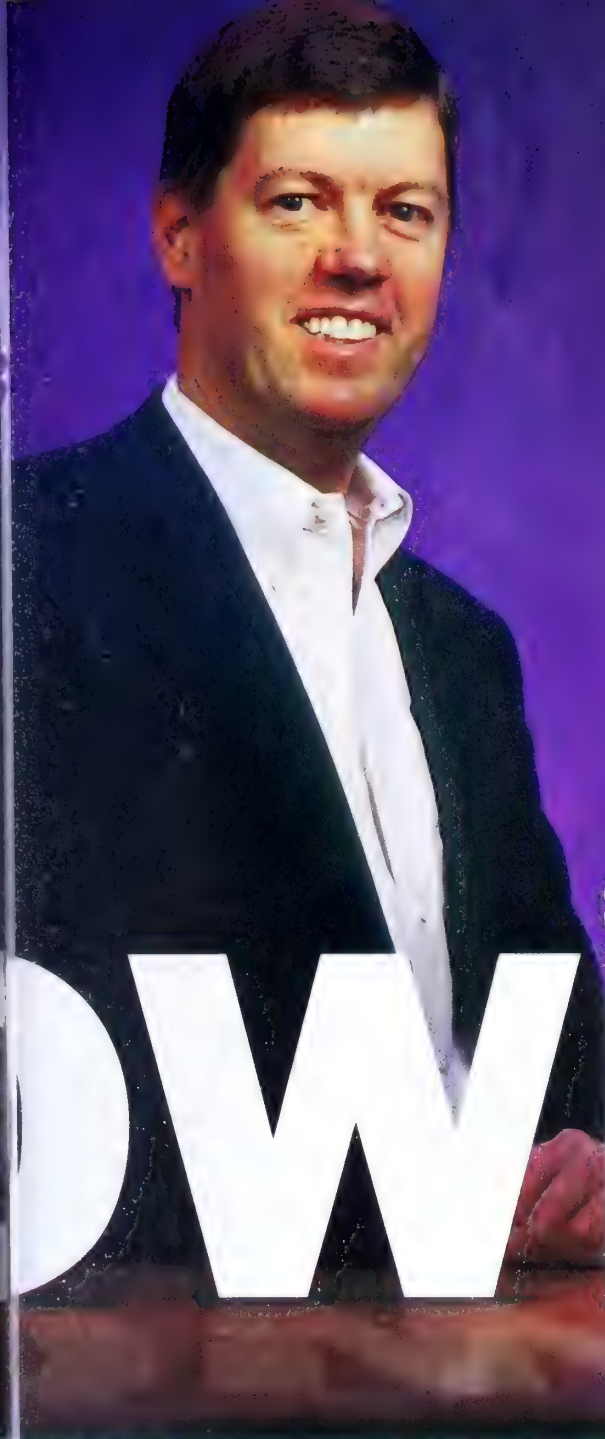
McNealy's quest for the Internet was finally rewarded on the opening. But before any agreement would be inked, he wanted AOL to back Java, Sun's software that is fast emerg-

SUN'S BIG COMPUTERS ARE SELLING FAST...



...AND IT'S MORE EFFICIENT





Cover Story

COO ED ZANDER AND
CEO SCOTT MCNEALY

POWER

...LEADING RICH ...TIGHT PROFITS...

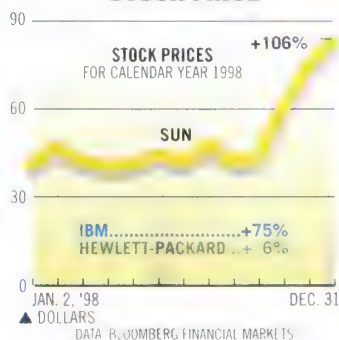
...ING PROFIT CHANGE
...INE MONTHS OF 1998

HEWLETT-
PACKARD* IBM

*NINE MONTHS ENDED OCT. 31

DATA COMPANIES

...AND A ZOOMING STOCK PRICE



ing as an alternative to archival Microsoft Corp.'s Windows. After nine days of intense haggling, McNealy had gotten more than he ever dreamed of: not only a huge boost for Java but also a chance to sell Netscape's widely used E-commerce software—and finally an AOL promise to buy at least \$500 million in Sun servers over the next three years. Crows McNealy: "People know that if Sun can handle AOL's traffic, we can handle anything. It's a real groundbreaker for us."

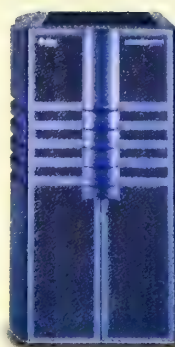
BRASH BOSS. Suddenly, the maker of whizzy engineering workstations and the faceless backroom computers behind the Internet and corporate networks is the toast of techdom—and beyond. Whether it's the AOL deal, Java's snowballing popularity, Sun's leading role in the Microsoft case, or simply outpacing nearly all its rivals, Sun has finally reached the top tier of the computer industry. Today, more of the computing, communications, and even consumer-electronics worlds are

SUN'S EXPANDING UNIVERSE

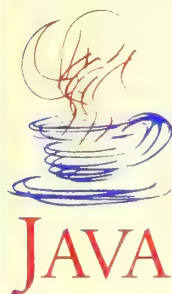
More than a decade ago, Sun coined the phrase "The network is the computer." At last, it's coming true. And Sun is harnessing the Internet to put computing power at people's fingertips in a host of new ways.

DATA: SUN MICROSYSTEMS INC., INTERNATIONAL DATA CORP., DATAQUEST INC., BUSINESS WEEK

SERVERS Powerful backroom computers serve up programs and services to desktop computers and other devices. Sun reaps its financial rewards from Internet computing by selling both the computers and high-priced specialized software for running Web sites and managing E-commerce. Sun's server sales jumped 30% last year.



JAVA Sun's software for writing programs that can run on any device connected to a network is the grease for a simpler style of computing and Internet services. To hasten Java's acceptance, Sun charges only minimal



licensing fees, thus attracting 900,000 software developers. Java's momentum hasn't caught on for creating desktop applications, but many corporations are using it for major data-gathering and storage applications.

JINI Sun's new technology is to make it easier for people to connect computers to a network and devices on it—such as printers, copiers, and fax machines. Q will use it in new disk drives.



DESKTOP COMPUTERS In this universe, these mainframe-sized desktops will fade in importance, necessary only for engineers and finance types who need big data at their fingertips. So far, they seem to be thriving, with sales topping 13% last year to hit 1 million units.

starting to orbit around Sun's vision of how information will be handled in the Internet Age—and those that aren't are scrambling to keep from getting sucked in. Says Merrill Lynch & Co. analyst Steven M. Milunovich: "If you want to know where the computer industry is going, ask Sun."

The brash, 44-year-old McNealy is only too happy to explain it. Death to today's style of computing, he says, where people run individual

Cover Story

programs on desktop PCs using Microsoft's Windows. Instead, McNealy envisions a computing world that is more communal. He favors shoving all of today's desktop complexity into air-conditioned rooms full of powerful, networked servers. These big computers then dish up information to cheap information appliances that are almost as easy to use as making a phone call. And by using Java—which allows not just data but programs to be sent easily over networks—mere mortals will get access to an exploding array of Internet services without the need for massive installations or updates of bulky software. "Microsoft's vision was to put a mainframe on everybody's desktop," says McNealy. "We want to provide dial tone for the Internet. We couldn't have more different visions."

That has made Sun the prime foil to Microsoft's growing hegemony in computers. More than any other industry battle, the clash between Sun and Microsoft underscores the mind-bending shifts brought on by the Internet as it forces companies to rethink every aspect of their businesses—and which technologies to adopt. As the Internet becomes more central to how every company does business, Sun hopes to lead an overthrow of the personal computer. "The PC is just a blip. It's a big, bright blip, but just a blip," says McNealy. "Fifty

years from now, people are going to look back and say, 'you really have a computer on your desk? How weird!'

Surprisingly, it was just a few years ago—back when you had a fancy cup of coffee and Sun was that hot yellow star in the sky—that many thought McNealy held the weird vision. Today, Sun's star has never been higher, and McNealy's vision of computing never closer to happening. Thanks to the Internet, Sun's Java software is gathering steam. Because Java can serve as the lingua franca for Internet programs, and will run on any type of device, it is becoming a staple for the 900,000 software developers, who have created thousands of Java programs that do everything from providing Web sites with the latest stock quotes to mining vast corporate databases for sales information. "We know how to 'do' the world," says Chief Operating Officer Edward J. Zander.

FRESH OOMPH. Now, Sun's powerful servers, which send and dispatch information over far-flung networks, are in demand from the likes of Colgate-Palmolive, Hershey, AT&T, GTE, and American Express—none of which bought Sun before. That has put Sun's server sales on a pace to rise in 1998, compared with an 18% gain for servers made by IBM and a 10% increase for those from IBM, according to estimates by market researcher International Data Corp. (IDC), even though the Asian flu knocked HP's and IBM's sales down this year and kept their sales growth under 10%. Sun's profits in the quarter ended Sept. 30 soared 21%, to \$1.1 billion, while sales jumped 19%, to \$2.5 billion. Sun's just a quarter could be a slight disappointment, though, because the company cut over from a mainframe-based financial system to all-Sun gear, potentially delaying shipment of some orders, analysts say. But demand remains strong—and so does Sun's stock, which more than doubled in 1998, to \$85.

And experts are betting that the AOL deal will boost

RS own m- n her an n or hem as ch NCs slow start—out 500,000 sold in d Sun's not leading the pack.

SCREENPHONES Simple devices for straightforward services such as grocery ordering. France's Alcatel is using Java to deliver Internet services such as E-mail and Web access to its Internet Screenphone that's available in Europe.



CABLE SET-TOP BOXES provides a conduit for new computer- and communication services, such as video on demand home banking. About 1.4 million Internet-connected TVs were sold last year, and that number is forecast to swell to 11 million by 2000. This year, cable giant Tele-Communications plans to start distributing 20 million Java-equipped set-top boxes.



CELLULAR PHONES AND PAGERS

Wireless devices untether access to Net services such as airline delay alerts and stock quotes. Sales of digital cell phones topped 13 million last year—so there's plenty of demand. Ericsson plans to use Java programs to offer new services through its cellular phones.



SMART CARDS Visa and others want to program Net services such as

airline ticket purchases into smart cards. Standard Chartered Bank in Singapore issued the first Visa Java smart card last June, and smart-card makers Gemplus and NEC also will offer Java smart cards this year. Some 22 million smart cards were sold in 1998. By 2002, sales may mushroom to 1.6 billion.

CARS Net connections can make navigation and diagnostic systems smarter and updatable. Delphi Automotive Systems, the electronics supplier owned by General Motors, plans to offer a Java-based system that would give cars voice-activated E-mail and navigation capabilities this year.

KEYS Java-powered rings and pass cards could serve as high-tech keys to hotel rooms or corporate networks. Dallas Semiconductor has sold 50,000 copies of its Java-based ibutton, an electronic component for these keys.



es even more. By hawking Netscape's E-commerce software along with Sun computers, Sun can attract customers want a more complete package. And the AOL-Netscape adds another powerful dimension, allowing Sun to offer a place for their own online services. The troika also to develop Net appliances, most likely using Java and acquiring software from Microsoft. Says AOL's Case: "Sun us to make the promise of E-commerce a reality." ed, Java is the fuel behind much of Sun's growing in- . Today, the software is rocketing the \$9.8 billion com- vell past the limits of the traditional computer market. s rapidly drawing support makers of consumer devices s wireless phones, video game s, and smart cards. Cable gile-Communications Inc., for e, plans to use Java to de- hone service, bill-paying, and services via some 20 million top boxes due to start ship- id-year. Meanwhile, Windows consumer version of Mi- s operating software, will be r 5 million of those 20 million set-tops, according to TCL. **COCK.** The biggest surprise of all: Sun's McNealy, a d University MBA with nary a technology root, has out- vered—at least for the moment—Microsoft Chairma- tes. While Sun built network smarts into its computers e start, Gates missed the significance of the Internet —forcing a mad scramble to catch up. Then, when Sun d Java in mid-1995 as a programming language that pice up Web sites, Microsoft publicly dismissed Java's potential even as its popularity skyrocketed.

“The PC is just a blip. It's a big, bright blip, but just a blip”

SCOTT McNEALY

Against all odds, Sun even won the first round in November of its lawsuit charging Microsoft with illegally changing Java so that resulting programs run only on Windows. That lifted a big cloud that had been hanging over Sun for the past year. Says Bruce Graham, chief information officer at food-service company AmeriServe Food Distribution Inc., which is rolling out 25,000 Sun JavaStation network computers to restaurant customers such as Taco Bell Corp.: “They've evolved into the leader of the other camp.”

Of course, the other camp, with Microsoft, Intel Corp., and the PC makers, is nothing less than an empire—one bent on keeping its commanding position. They think the notion that PCs will become passé is sheer poppycock and that plummeting computer prices will ensure their popularity. Microsoft, alone, has become much more Net-savvy and is turning its fearsome troops to dominating Internet software and services.

Others are rising to the Internet challenge, too. HP, for instance, recently won big contracts to supply servers to UUNET and PSINet Inc., leading providers of Internet service. Boasting an unmatched 120,000-person high-tech services force, compared with 7,000 at Sun, IBM has won big E-commerce deals to build the online stores for Macy's, Borders, CD Warehouse, and dozens of others worldwide. Says Neil Isford, IBM's vice-president for electronic commerce: “We're hearing customers ask, ‘Can you do the whole thing for me?’”

Worse for Sun, the PC camp can claim fresh victories in Sun's core business: While unit sales of Sun's workstations are

“If you want to know where the computer industry is going, ask Sun”

—STEVEN MILLONOVICH, Analyst, Merrill Lynch & Co.

climbing, its workstation revenues are expected to fall 2% this year, because of the low-cost Windows NT machines churned out by Compaq, Dell, and others. And Sun's operating software is under a bruising assault: IDC estimates Microsoft will have shipped 1.6 million copies of its Windows NT Server software in 1998, vs. 167,000 for Sun's rival Solaris, the

leading Unix software. "Sun is vulnerable," says John T. Rose, general manager of

Cover Story

Compaq Computer's Enterprise Computing Group. "The world is going to be a mixture of NT and Unix."

Indeed, with such price pressure on Sun, it's unclear how long the company can continue to design all its own chips, hardware, and software—and still compete with PC makers that let Microsoft and Intel do almost all their research and development for them. Sun spends 10.4% of its sales on R&D, compared with 4.5% at Compaq and 1.6% at Dell. "We scale our R&D across a vast industry," says Jeff Clarke, general manager of Dell Computer's workstation division. "Sun tries to do it all themselves."

Sun's response: It has faced the same challenges for much of the past decade, yet it keeps confounding its critics. Until recently, few people thought Sun would even be around in the In-

ternet Economy, let alone emerge as a leader. Almost since its 1982 start as a maker of workstations for engineers, Sun has been the perennial outsider. After sitting out the PC Revolution, it's now the last major computer maker still refusing to sell machines that use Microsoft programs or Intel's Pentium chips. And Sun puzzled people with its motto: "The network is the computer." The phrase sums up the stubborn belief that vast networks of connected devices powered by big servers would someday subsume the mighty PC. All that, in the face of the incredible rise of Intel and Microsoft, prompted continual doubts about Sun's strategy, vision, and viability.



Taco Bell outlets are among the 25,000 restaurants set to use Sun JavaStations

ternet Economy, let alone emerge as a leader. Almost since its 1982 start as a maker of workstations for engineers, Sun has been the perennial outsider. After sitting out the PC Revolution, it's now the last major computer maker still refusing to sell machines that use Microsoft programs or Intel's Pentium chips. And Sun puzzled people with its motto: "The network is the computer." The phrase sums up the stubborn belief that vast networks of connected devices powered by big servers would someday subsume the mighty PC. All that, in the face of the incredible rise of Intel and Microsoft, prompted continual doubts about Sun's strategy, vision, and viability.

The mouthy McNealy, who cuts a boyish figure in jeans and polo shirt, did little to change people's impressions. Playing Don Quixote tilting at the Win-mill, he has slammed rivals' efforts as "big hat, no cattle," deriding Windows as "frosting on

a road apple." He even banned Microsoft's ubiquitous software programs from Sun's premises—and brags how much its stock has risen since then. "There have been times when we seemed way out of sync," says analyst Laura Coniglio of Goldman, Sachs & Co. "Yet two years or three years later, we see the rest of the industry moving in their direction."

They had better hurry. Just as the rest of the industry is accepting the notion that "the network is the computer," McNealy is launching Sun on a far broader mission: to be sure to spark just as much controversy. He aims to make Sun the prime provider of the Internet equivalent of dial tone. "A UTILITY." When you pick up the phone, it simply works. You don't have to boot it up. It's obvious how to use it, and it rarely "crashes." That's the level of service and functionality that Sun eventually sees Internet services such as Eudora Web access, and the like evolving to. And just as Lotus Technologies Inc. provides all the gear needed for telecom companies to run the phone system, Sun wants to offer all the hardware and software needed to build out what he calls the Internet "Webtone." Says McNealy: "Information becomes a utility rather than people having a mainframe on their desk."

McNealy's Webtone vision goes beyond just helping companies put up Web sites, which it has been doing for years. It even extends beyond the next step—connecting Web sites

to inventory and manufacturing systems, customers, and suppliers. McNealy and his brain trust think the Internet is radically changing not just the way people communicate and get information but also the way entire industries are set up. The Net, he believes, is spawning a new class of companies providing services that will radically change the way companies use computers and the Internet today.

AOL and Web portals such as Yahoo! Inc., for instance, are offering E-mail and computerized calendars that require software installed on a \$2,000 PC. Now, they're available, sometimes for free, on a Web site with the click of a mouse—or even through a cellular phone, cable-television top box, or Sun's \$500 JavaStation, a stripped-down corporate desktop computer. And that's just the beginning.

Already, this utility-like service is spreading rapidly. Customers are beginning to outsource basic computing tasks. Sun computer-powered service companies such as Digiplex operate their Web-site backrooms and Exodus Communications Inc. to manage their exploding data centers.

Soon, even traditional business tasks that currently require installing multimillion-dollar software packages, such as those sold by SAP and Oracle Corp., will be done through Net-based services instead. This month, BizTone.com, a Malaysian startup, will begin offering over the Net Java-based services as general ledger, sales order entry, and inventory tracking—things that currently must be installed on company computers. And Oracle will start offering its database software as an online service this month.

Think utilities. Customers pay for services as the



Our New Plan Adapts To Your Need To Soar Higher.

Introducing Sprint Business Flex™, a new business communications plan that flexes with you.

create your own small business communications plan with Sprint Business Flex. It's flexible. So, choose from domestic and international long distance and toll-free service, switched data, dedicated access, paging and toll calling. It's all on one comprehensive bill with

low, flat, competitive rates. And you're free to consult with us on an ongoing basis and adjust your plan as you see fit, so your needs are always met. Plus you'll get a monthly bonus that can grow as you grow, which means Sprint Business Flex can help your success really pay off.

Call toll-free

1-888-SPRINT-BIZ www.sprint.com/bizflex



We help your business do more business.

“

Sun appears to have nine lives. I'm not sure what life they're on now, though.

— WILLIAM PETERFELDER, *American Manager*

by most accounts, Wintel servers can't yet match. Convergys, for instance, which provides telecom-billing service, says its 2003 server fleet of 10,000 servers is 10 times as powerful as the 100,000 servers that IBM Corp. has in its data centers.

records daily. Says James P. Holtman, a **CONVERTIBLE** president: "Sun can scale

Cover Story

to meet the smallest and the largest customers."

McNealy hopes Sun's products also can help make computing easier for the unwired masses of consumers. He's rushing to get Java on the Sony Corp., which want to use Java to offer more capable game players and TVs. Ultimately, McNealy aims to provide the means to network not just a couple of hundred million PCs but also the billions of computer chips in digital cameras, cell phones, smart cards and high-tech door locks.

All of this adds up to potentially huge markets for Sun that didn't exist a few years ago. Indeed, says Merrill's Milunovich, "Internet computing is becoming the main stream of computing." And McNulty aims to be the arms supplier to every side of this new battlefield, pushing Sun past \$10 billion in annual sales—\$2 billion in the next five years. Says Coo Zander: "We want to be the lumberyard for the networked age."

To get there, McNealy is betting much of Sun's future on software. When he details his vision of computing on a whiteboard, almost everything he scrawls is a software standard, software to write other software, or a software application. That's why Sun isn't stopping at Java. On Jan. 25, it will launch a new software technology called Jini—a variant on the Arabic word from which "genie" is derived. It's a set of software tools intended to cut through the nightmare of installing new devices on a network. "Jini is really about achieving simplicity, so computers can be used by more people."

HEAVY SHELLING. Big plans. Big enough to counter the world's biggest software company? Not if Microsoft can help it. Microsoft, in addition to its 23 years of

over Sun's software mélange: an all-Windows network that's less complex to run. That's how it has persuaded every other major PC vendor to join the Windows NT network. "We've put together a Windows NT-and-Unix strategy," says Sam Jadaallah, Sun's chief executive. "We're going to be the only company to do it." To Henry Ford's single-color choice for the Model T, "Sun says they'll sell you anything you want as long as it's black."

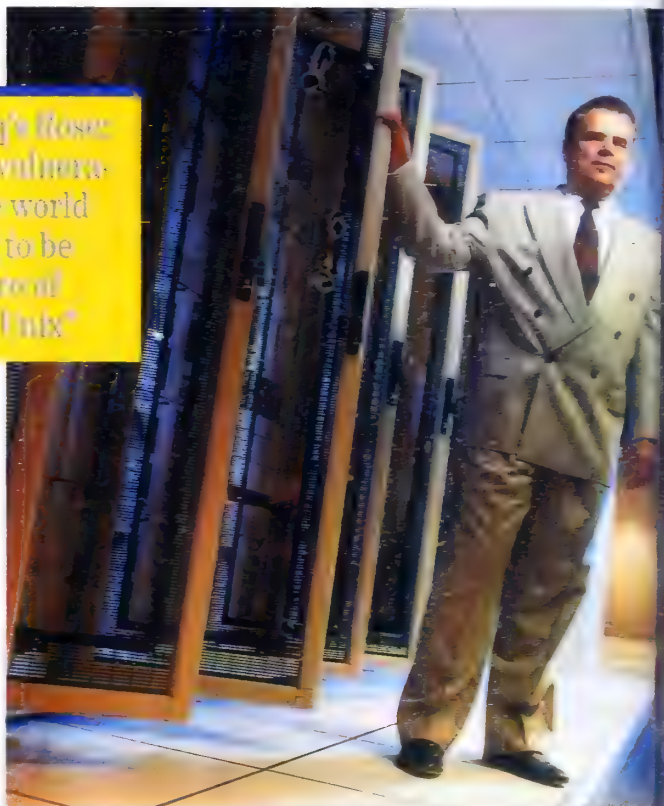
Microsoft continues to aim its guns at Java. Even though Microsoft has lost a preliminary ruling in Sun's lawsuit, it has persuaded hundreds of thousands of software developers to use its version of Java. Says Ken Morse, chief technology officer for consumer-software tools maker PowerTV Inc.: "If the standard gets fragmented, then Java fails."

Sun has only itself to blame for at least some of Mi-

Microsoft's inroads into Java. It has often fallen short of its grandiose promises, releasing some crucial new Java technologies late and changing others too fast for customers to deal with. It also has angered partners by keeping too tight a grip on Java's development—prompting HP, for instance, to team up with Microsoft on developing a version of Java for consumer devices. Even IBM, Sun's staunchest Java ally, wants Sun to release Java to public-standards bodies. Patricia Suelz, general manager for IBM's Java software, says, "Java is bigger than any one company." Sun has agreed: It recently eased Java licensing requirements.

For all the challenges in software, this fat-margin bus could prove to be crucial to Sun's way of doing business. McNealy, the son of a former American Motors Corp. chairman, has always insisted that Sun, like a car com-

Company's Rose:
"Sam is vulnera-
ble. The world
is going to be
a mixture of
NT and Unix."



must keep building the basic engine of computers—and software—or face losing control of its destiny. But so is becoming increasingly expensive.

Thanks to the technology lead that allows Sun to make more lucrative machines, the company's gross profit remained steady at 51% in the September quarter—double the level of Compaq's, for example. Analysts say Sun should be able to maintain those high margins at least the next couple of years. And after that, even higher-revenue from Java license fees—\$130 million last year—and other software may provide the several hundred million dollars a year to pay for its own chip and software designs, says Eric E. Schmidt, CEO of Novell Inc., "the front of the company continues to recede."

[Faint, illegible text from bleed-through]

**WWW.it's/getting
late/and-you/still_have
10/packages/to/ship
so/youlogon/and
the-next/thing
you/know/all-your
airbills/are/done_for
you-and/youare_on/your
way/home.COM**



F e d E x i n t e r N e t S h i p .

Shipping packages doesn't require filling out ten lines of information just to complete an airbill. With FedEx interNetShip, just select the recipient from your built-in address book, click on their name and your airbill is automatically filled out. Press print, and by the time the airbill comes out of your printer your package has been registered in our system, saving you something you can never have too much of: time.

www.fedex.com/us

FedEx
Be absolutely sure.™

© 1999 Federal Express Corporation

McNealy is as much in doubt as it ever has been. McNealy is just the man as more companies outsource their computing to service providers, fewer corporations may buy computers from Sun. That means Sun has to keep reinventing itself to survive in the new world it's rushing to help create. "Sun appears to have nine lives," says Charles Fitzgerald, a Microsoft group product manager. "I'm not sure what life they're on now, though."

Cover Story

Most of all, it's uncertain how Sun can continue offering a stark alternative to conventional wisdom—and at the same time serve as a leader for the industry. To reconcile that apparent contradiction, McNealy will have to cooperate much more with others in the industry. Despite recent deals such as the AOL-Netscape pact, that's something that McNealy's often rabid anti-Microsoft stance works against. Says analyst C. B.

Lee of Sutro & Co. and a former Sun manager: "McNealy shoots off his mouth too much. At some point, you've got to be more mature." Even Sun's executives concede it needs to be a more statesmanlike role in the industry. Says Zander: "We now have to live up to a higher expectation."

Can McNealy ultimately transform Sun from iconoclast Internet icon? Even though he has two young boys and another baby on the way, McNealy shows little sign of slowing his strident style. On a recent day, he bounded to Zander's office and hung on the door a Bill Gates doll as a nose—that a fan had sent him. Still, McNealy notes that none of this attitude has hurt Sun where it counts: "It certainly didn't stop us from doing a deal with AOL—though they're a partner with Microsoft," he says. For at least, it's hard to argue with him.

By Robert D. Hof in Cupertino, Calif., with Steve Wozniak in San Mateo, Calif., and Ira Sager in New York

'MICROSOFT OUGHT TO BE SCARED TO DEATH'

When's the last time you booted up your telephone? Added a disk drive to your car stereo? Installed a new program on your pager? Dumb questions, right? Those devices don't require the rigmarole that personal-computer owners contend with regularly. They just work.

That simplicity is what Bill Joy, Sun Microsystems Inc.'s chief technology officer, wants to bring to computers and the Net. When he unveils new Sun software called Jini (pronounced "jenie") on Jan. 25, Joy aims to usher in a new era in which people can tap into a computer network's vast services as simply as they call Mom on the phone. For technology is way too complex, says Joy. "We've been fishing around for a system that puts it self together."

How might Jini work? It's a set of software tools that uses Sun's Java to give each device its own smarts. Once plugged into a network, these devices each have an address, and they broadcast what sort of capabilities they can provide. A disk drive, for instance, might let other devices know it has 10 megabytes of storage available for use. In that case, you could store a video clip from the Net in that space.

Suddenly, computing becomes a service, like a library, available from almost anywhere. Walk into a customer's conference room and plug your Jini-outfitted PalmPilot into the network jack. Presto! You've got a virtual office. You



SUN'S JOY: "A system that puts itself together"

could send a memo to a company printer or borrow a company server computer to speed up a spreadsheet calculation.

Potentially, this creates a huge new opportunity for Sun. Jini networks would require boatloads of Sun's servers to run on. Sun even hopes Jini could block Microsoft Corp.'s attempts to move PC technology into consumer devices. "This is the hottest idea in a long time," says Marc Hansen, vice-president for architecture for Sun customer J. Crew Group Inc., which sees Jini as a way to get computers to talk to one another more easily. "Microsoft ought to be scared to death."

The software giant already is fir-

ing back. On Jan. 7, it introduced a related set of technologies at the Consumer Electronics Show in Las Vegas but has not yet set a delivery date. Microsoft says its Universal Plug and Play technology uses more industry standards and avoids Jini's potentially cumbersome approach of sending software over networks. Says Charles Fitzgerald, a Microsoft group product manager: "In the real world, with all this complexity, this isn't going to be easy."

"A TOY." That's not the only obstacle. Sun's plan assumes every device has the necessary Java software or ready access to it. But current Java-powered devices require more memory than most consumer devices can afford. Moreover, the early release of Jini has limits on how many devices can work on a network,

says Gartner Group Inc. analyst David Smith. While Jini is promising, he says, "at this point in time, it's a toy." Finally, Jini is effective only if it's ubiquitous in a vast range of devices or they won't be able to communicate.

To answer that concern, Sun is expected on Jan. 25 to add a raft of new Jini licensees to the 30 computer, software, and consumer-electronics companies supporting Jini so far. Quantum Corp., for example, plans to offer Jini disk drives later this year. Says Quantum chief architect Paul Borell: "There is a potential for Jini to be at least as big as Java." Joy dreams of Jini.

By Robert D. Hof in Cupertino, Calif.



Vito Palermo, Senior VP & CFO
Metawave Communications, Inc.

How J.D. Edwards SCOREx is helping Metawave give cellular operators more airtime.

The cell phone business keeps Metawave hopping. They've gone from startup to star by supplying cellular operators with vital technology that packs more power into limited airtime.

To run a supply chain that's as nimble as a fast-growing business, Metawave looked to J.D. Edwards SCOREx (Supply Chain Optimization

and Realtime Extended Execution), supply chain software. A J.D. Edwards SCOREx supply chain is more efficient and more responsive because J.D. Edwards fully integrates order, delivery and customer service management.

J.D. Edwards SCOREx is easy to install, too. Integration partner Ernst & Young took Metawave from zero to sixty in less than six months.

For Metawave CFO Vito Palermo, the biggest improvement has been in responding to customer requirements. "J.D. Edwards SCOREx has given us the ability to be responsive to the dynamic changes in the global wireless communications market," says Palermo. That's how it ought to be. It can be for you, too. To find out more, call 1-800-727-5333 or see www.jdedwards.com/customer.

JDEdwards
Enterprise Software

Make it happen. Not just.

Copyright © J.D. Edwards, Inc. and/or its companies. J.D. Edwards is a registered trademark of J.D. Edwards & Company.

ORACLE
Microsoft
Solution Provider

WOMEN'S PRO SPORTS

FEW LEAGUES OF THEIR OWN



SEND IN THE CROWDS: Empty seats helped doom the ABL

Other than the WNBA, attempts to build women's pro leagues have largely gone nowhere

You know you're in trouble if you can't even give your product away. Early in 1998, while the National Football League was being offered \$17 billion for its TV rights, the women's American Basketball League was begging the networks to take millions for airtime.

No TV meant few sponsors and, in turn, a cash crunch. By Christmas, the ABL had too much red and not enough green. It folded on Dec. 23 in the midst of its third season. Although its demise was partly due to its rival, the higher-

profile, better-financed Women's National Basketball Assn., the ABL is part of a larger story: the failed promise of women's pro team sports.

U.S. women's teams excelled in the 1996 Olympics, and each Atlanta gold medal seemed to beget its own pro league. By 1997, two basketball leagues and a fast-pitch softball league were up and running. Soccer was ready to roll, and a few months after a surprise 1998 gold medal in Nagano, a women's ice hockey league was slated to begin.

Now, much of that enthusiasm is gone. The ABL is dead, soccer postponed until 2001, hockey scrapped completely, and

softball struggling. Volleyball is fractured into several small leagues. And while WNBA has been promoted as a runaway hit, its real status remains unclear. Second-season attendance was up 12%, ratings were down slightly, and the word out from the National Basketball Association just-ended lockout is yet to be gauged.

The push for women's leagues had more than Olympic gold going for it. Title IX, the 26-year-old federal law requiring colleges to fund women's sports as fully as men's, created a generation of female athletes—potential pros and likely fans. New women's magazines from *Sports Illustrated* to *Condé Nast* sprouted. And with fans looking for affordable tickets and women's sports moguls eager to buy time, the time seemed right for women's TV. TV, TV, TV. Still, starting a sports league is daunting, and the field in America is haunted by the ghosts of ball clubs gone bust. Says WNBA commissioner Val Ackerman: "You need TV. TV—national TV. That breeds credibility with sponsors and fans. You need the right organizational complement the right season. We play in summer so as not to compete with the NFL, hockey, and college sports for airtime."

To get that TV time, though, it's not enough to have the NBA behind you. Sean Manus, president of CBS Sports, says there's little room for women's

Women's Leagues Since 1996

	EXISTING LEAGUE	FAILED OR NEVER STARTED	CORPORATE SPONSORS	TELEVISION DEALS
BASKETBALL	WNBA	ABL	Nike, McDonald's	NBC, Life, ESPN (W), Fox, BET
HOCKEY				
SOCCER				
SOFTBALL	WPF			

DATA BUSINESS WEEK

teams on the networks. "Advertisers aren't convinced that the way to women is through women's sports. More women watch the World Series than the WNBA Finals." Even cable channels are cautious. "The big problem and I say this with kindness and respect—is that this whole women's explosion is mythical. It's still an epic movement," says Brian Donlon, president for sports at Lifetime.

THEM:
**We know
what's best.**

**DELOITTE
CONSULTING:**
We know what works.

Confidence is one thing.
Arrogance is something else altogether.

At Deloitte Consulting, we never presume to have all the answers.
Because we've learned over the years that certain insights
can only come from inside our client's organization.

Which is why we work collaboratively with you.
And treat everyone, from your corner offices to the cubicles,
with respect. It's all part of a working style that has proven to secure
employee buy-in to changes at hand. Which ensures the complete
transfer of the additional knowledge and skills your people
will use to deliver the promised returns of any
new strategies and technologies.

For results you can count on today.
And build on tomorrow.

A very different approach. For very different results.

**Deloitte & Touche Consulting
Group**

"This book is all about the real magic: stimulating and harmonizing the collective energy of your people."

—Ken Blanchard

THE Disney Way

HARNESSING THE
MANAGEMENT SECRETS
OF DISNEY IN
YOUR COMPANY

Bill Capodagli & Lynn Jackson

Foreword by Fred Wiersema



Available at Bookstores Everywhere
Visit us at www.books.mcgraw-hill.com

Transform Your Company Using the Magic of Disney

Fortune 100 consultants Capodagli and Jackson give an in-depth look at the Disney philosophy and demonstrate how it can be used in any company to achieve superior teamwork, creativity, and innovation.

No fairy dust.

No magic wands.

No wishing on a star.

Sports Business

sion. The key, he says, is a new business model, fundamentally different from men's leagues, where TV rights pay for the bills. "I'm bullish on women's sports, but these new leagues need more realistic," says Donlon.

In the summer of 1999, the WNBA expanded to Orlando and Minnesota to absorb many top ABL players—it should bolster the WNBA's somewhat spotty play. Yet even if the WNBA succeeds, its success might not be replicated. The scenarios for other women's leagues sound more like the ABL: grassroots support, small arenas, tiny startup budgets, few sponsors, inadequate airtime.

■ **HOCKEY.** The Women's Professional Hockey League (WPHL) was scheduled to begin this winter, with four teams (in Quebec, Connecticut, Massachusetts and New Hampshire) and a \$2.5 million budget. Twenty players, including six Olympians, signed letters of intent. The basic plan was a league-only structure like the WNBA, with maximum salaries of \$21,000 and \$5 tickets. But the numbers didn't click, and plans were shelved. The new buzz is that the league is considering starting a women's league.

■ **SOCCER.** The National Soccer Alliance was slated to begin in 1997. With commitments from 12 Olympians, the teams were to be backed by a major corporation each putting up \$1 million per year. Most important, Mia Hamm, a star player who has been featured in *People's* "50 Most Intriguing" and "Most Beautiful" lists—was on board.

But the NSA never kicked off. Jeff Rottenberg, a founder, suggested the league was "hostility" from the powerful U.S. Soccer Federation, which feared the NSA might interfere with the inaugural Women's World Cup, which begins in June, and with Major League Soccer's men's league. There's hope, though, that the Women's Cup could galvanize the legion of girls and women who play.

■ **SOFTBALL.** Backed by AT&T, the six-team Women's Pro Fastpitch league was launched in 1997 with teams in Florida, Georgia, North Carolina and Virginia. Coaches drive vans, players crash on couches, and the salary for an entire team is \$72,000. Still on the cheap, the WPF champion the Wahoos went bankrupt in November.

The good news is that it's still early to write off women's professional leagues. The road to success will be of ruts for men's major leagues, and the recent experience of the NBA demonstrates, trying times are never far off. What matters is that women's leagues are finally making a run at the big time.

By Michael Goldstein in New York

BUY RECYCLED.



AND SAVE.

Thanks to you, all sorts of everyday products are being made from recycled materials. But to keep recycling working, you need to buy those products. For a free brochure, call 1-800-CALL-EDF.



"Black & Decker is honored to have been recognized by *Business Week* magazine and IDSA for our achievements in product design. Our rich history of innovative new ideas and user-centered design is made all the more rewarding through our participation in the annual IDEA competition."
—Nolan Archibald, Chair, President and Chief Executive Officer, The Black & Decker Corp.

GOOD

"Winning Industrial Design Excellence Awards affirms our ongoing commitment to product design excellence. Design excellence is central to Microsoft's objective of making personal computers more easy, enjoyable, and accessible for all its hardware products."
—Rick Thompson, Vice President, Hardware Group, Microsoft Corp.

DESIGN

"The growing awareness of 'IDEA' has been enhanced by the dedicated support of *Business Week* magazine. This has facilitated new sharing practices among design leaders that have, in turn, created a strong bond between professional design and business leadership."
—John E. Herlitz, Vice President of Product Design, Chrysler Corp.

PAYS

"Great design, useful innovation, and 'retail shelf space presence' form the essential foundation of every new home computer Compaq delivers. Without a focus on world-class design leadership, Compaq could not have achieved the tremendous consumer preference we now enjoy."
—Rod Schrock, Sr. Vice President & General Manager, Consumer Products Group, Compaq Computer Corp.

OFF

Volkswagen, Sassy Toys, Sunbeam, Samsung, Hewlett-Packard, Sun Microsystems, Motorola, Nike and Chrysler. These companies, all 1998 IDEA winners, show that good design pays off. It pays off in lower costs, healthier profits, greater customer satisfaction and new product innovation. Business Week is again proud to sponsor the Industrial Design Excellence Awards (IDEA) annual competition conducted by the Industrial Designers Society of America (IDSA). The IDEA is accepting entries from Asia, Europe, Latin America, Canada and other foreign

countries for products sold in North America. Business Week will publish a major story on the winners in a June, 1999 issue. Designs of business and medical equipment, consumer products, graphic and multimedia, heavy machinery, transportation, packaging, exhibits and furniture are eligible. The deadline for entry is February 15, 1999. For entry information, procedures and fees contact: IDSA, 1142 Walker Road, Great Falls, Virginia 22066. Telephone: (703) 759-0100. Fax: (703) 759-7679. E-mail: idsa@erols.com. Web: www.idsa.org.

**The 1999
Industrial Design
Excellence
Awards**

Sponsored by Business Week.

**Presented by the Industrial
Designers Society of America.**

For more information, contact: IDSA: Tel: (703) 759-0100. Fax: (703) 759-7679. E-mail: idsa@erols.com. Web: www.idsa.org.

IF YOU CAN'T BEAT 'EM...

Knight Ridder goes high-tech to fend off online rivals

Tony Ridder had not been back in San Jose, Calif., two weeks when he was honored at an August gala marking the opening of the city's computer museum, The Tech. More than a decade earlier, as publisher of the *San Jose Mercury News*, Ridder had been an original booster of the project. Now, as chief executive of Knight Ridder Inc., he was transplanting the newspaper giant's head office from Miami to his old stomping grounds.

But the great-grandson of one of Knight Ridder's founders insists he didn't drag his top executives clear across the country on a self-serving quest. Rather, relocating to Silicon Valley, he says, is part of a determined effort to fend off powerful foes, such as Yahoo! Inc. and Microsoft Corp., that are trying to lure advertising from newspapers to such fast-growing Internet services as CarPoint and Yahoo!Classifieds. In a kind of "if you can't beat 'em, join 'em" approach, Ridder is pushing hard on a Web assault of his own.

The centerpiece is Knight Ridder Real Cities, a network of 40 Web sites. They include online versions of the chain's 31 dailies; regional portals, such as charlotte.com, built around them; and services such as auto.com, a Web-only supplement produced by the Detroit Free Press. To bolster Real Cities, its Knight Ridder New Media unit has forged alliances with and made minority investments in close to a dozen Internet-related ventures, all aimed at wooing readers and advertisers online. The company is looking to invest more (table). "The dumbest thing we could do," says Ridder, "is sit back and wait for competitors to figure out the revenue streams online."

LOOKING AHEAD. Other publishers, such as Tribune Co. and New York Times Co., have bold Web strategies. But few have as much to lose as Knight Ridder. Ridder shed the company of nonprint assets and in 1997 anted up \$1.65 billion for

four newspapers, including the *Kansas City Star* and *Fort Worth Star-Telegram*, adding them to a stable that includes the *Miami Herald* and *Philadelphia Inquirer*. "As the newspaper industry's biggest pure play,

they've got more at risk than an," says Forrester Research Inc.'s media analyst Bill Bass.

Ridder says Internet comp have not yet hurt business, but expects that to last. Forrester es classified advertisers will increase Web spending more than tenfold from 1998 to 2003, to \$2.9 billion—and a chunk of that increase will come from newspapers. Knight Ridder derives a third of its \$3 billion in revenue from classifieds, and losing even a fraction of that would eat into margins. "The daunting is the potential impact of electronic commerce on retail advertising, which represents a further \$1.1 billion of the company's revenues. "The thing I worry about," says newspaper analyst John Morton of Morton R



THE WAY TO SAN JOSE:

Tony Ridder put his HQ in Web country

PROSPECTING FOR WEB GOLD

Knight Ridder's online investments*

*Knight Ridder owns less than 20% of each company, except InfiNet (33%) and Tesserae (25%)

DATA: KNIGHT RIDDER INC., 1999

CAREERPATH Joint venture among major news companies for national employment advertising

CLASSIFIED VENTURES Consortium of newspaper Web sites focused on selling cars and real estate

INFINET Internet access provider that maintains sites for most Knight Ridder operations

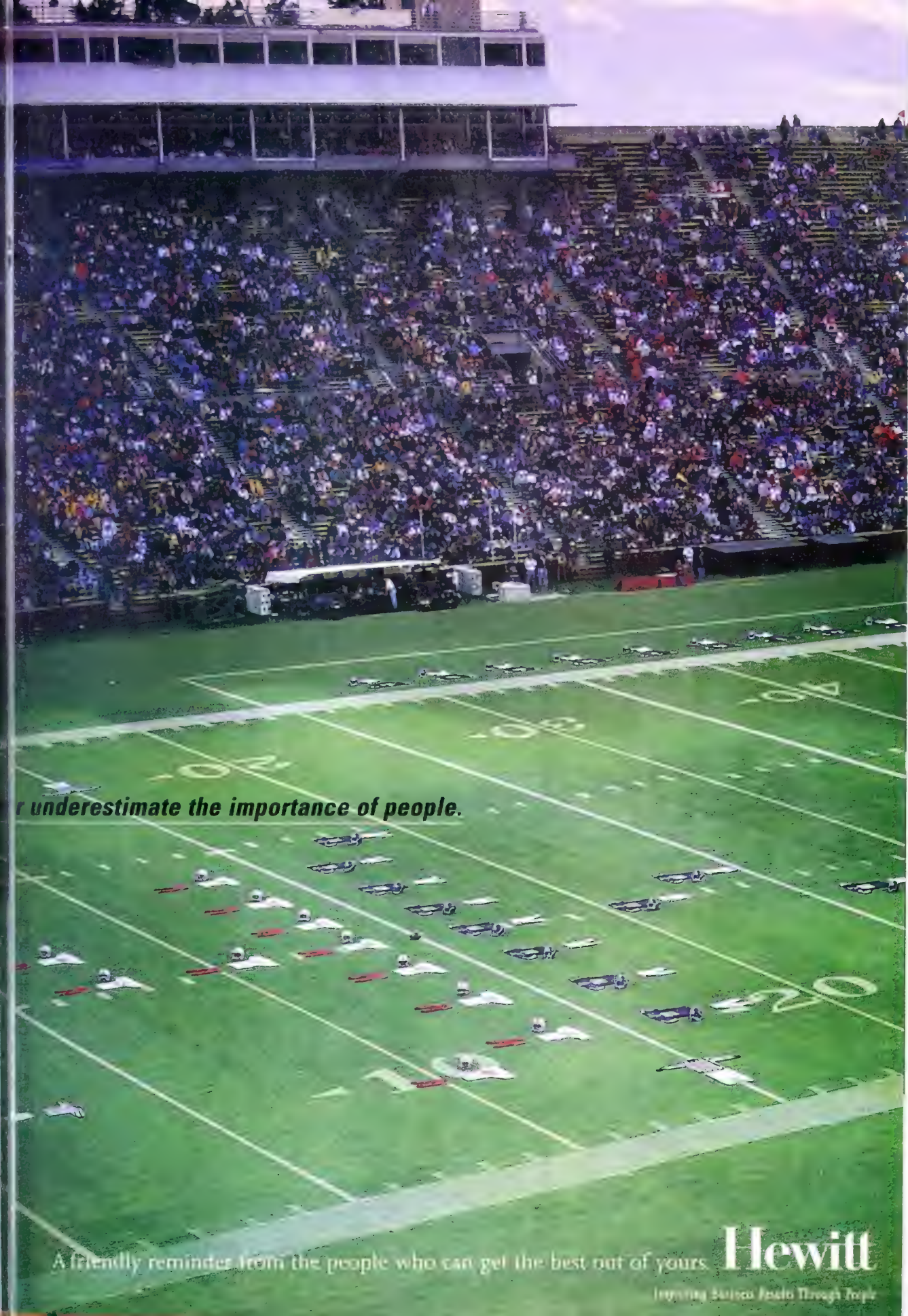
POINTCAST "Push technology" company

SAVESMART Interactive promotions for merchants

SPORTSLINE USA Inherited small stake in online sports service from sale of golfweb.com

TESSERA Software startup that merges incompatible databases

ZIP2 Creates directories used in all Knight Ridder Web sites and sold to other newspapers



Don't underestimate the importance of people.

A friendly reminder from the people who can get the best out of yours. **Hewitt**

Improving Business Results Through People

Inc., "is the extent to which Internet shopping might start to hurt the local commerce that newspapers depend on."

It's no wonder, then, that Knight Ridder is committed to spending on the Web, even as its own online business lost \$23 million in 1998, on revenues of \$20 million. It's expected to lose as much again this year but to come close to breakeven in 2000. That conflicts with Ridder's other top goal: boosting Knight Ridder's long-lagging profit margins. Having made progress since becoming CEO in 1995, Ridder is now close to his target of 20% profit margins by the year 2000. But slowing advertising growth has dampened the outlook and kept the stock relatively flat.

STILL INVESTING. Ridder and his team of Net-savvy executives figure they have little choice but to invest in any venture that might protect business or build revenues. Says Knight Ridder New Media President Bob Ingle: "I live in terror that some big thing's going to happen that I don't see coming." So Ridder has allocated \$25 million a year to invest in online stakes, most of which are under 20%. In its latest deal—yet to be announced—Knight Ridder is paying an undisclosed sum for just under 10% of SaveSmart Inc., a Mountain View (Calif.) company that runs an online promotions service for merchants. SaveSmart acts like a paperless coupon service that gives Web surfers discounts in real-world stores that advertise online.

Analysts applaud Knight Ridder's strategy, but some wonder if its network of local sites will ever gel, and they figure Real Cities will someday have to be merged into a bigger entity. What's more, the company has had its share of high-tech fumbles: In the mid-1980s, it shelved Viewtron—a teletext product that was the precursor to such services as America Online Inc. More recently, Ridder canceled development of a handheld electronic newspaper. And Knight Ridder was part of New Century Networks, an online newspaper consortium that flamed out in March. "Historically, Knight Ridder has been a pioneer," says Martin A. Nisenholtz, president of New York Times Electronic Media Co. "The question has always been: Do they have the strategic fortitude to stick to it for the long term?"

Tony Ridder insists he does and that his company's track record shows just how willing it is to take chances. He also knows that if his Silicon Valley move doesn't work out, the industry's biggest pure play may have no place else to go.

By Richard Siklos in San Jose, Calif.



TELEVISION

AT THE STARTING GATE: A CHANNEL FOR RAILBIRDS

Malone and Murdoch want cable viewers betting by autumn

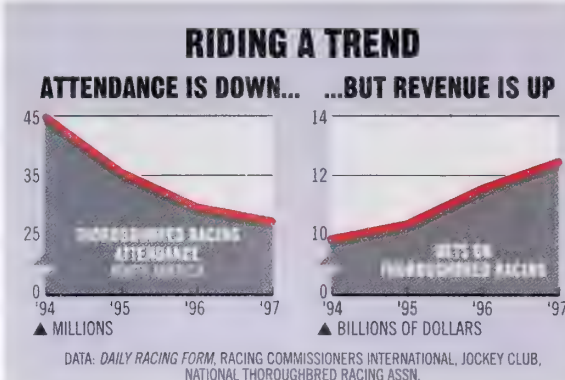
If it works, it could be one of the most lucrative TV channels ever. News Corp. Chairman Rupert Murdoch and Tele-Communications Inc. CEO John C. Malone are teaming up to launch a horse-racing cable channel by this fall that will let viewers play the ponies from the comfort of their La-Z-Boys. If more than the eight states that now permit such betting rewrite their laws, Television Games Network (TVG) just might revive a fading sport. And for United Video Satellite Group Inc.—soon to be a joint venture of News Corp.

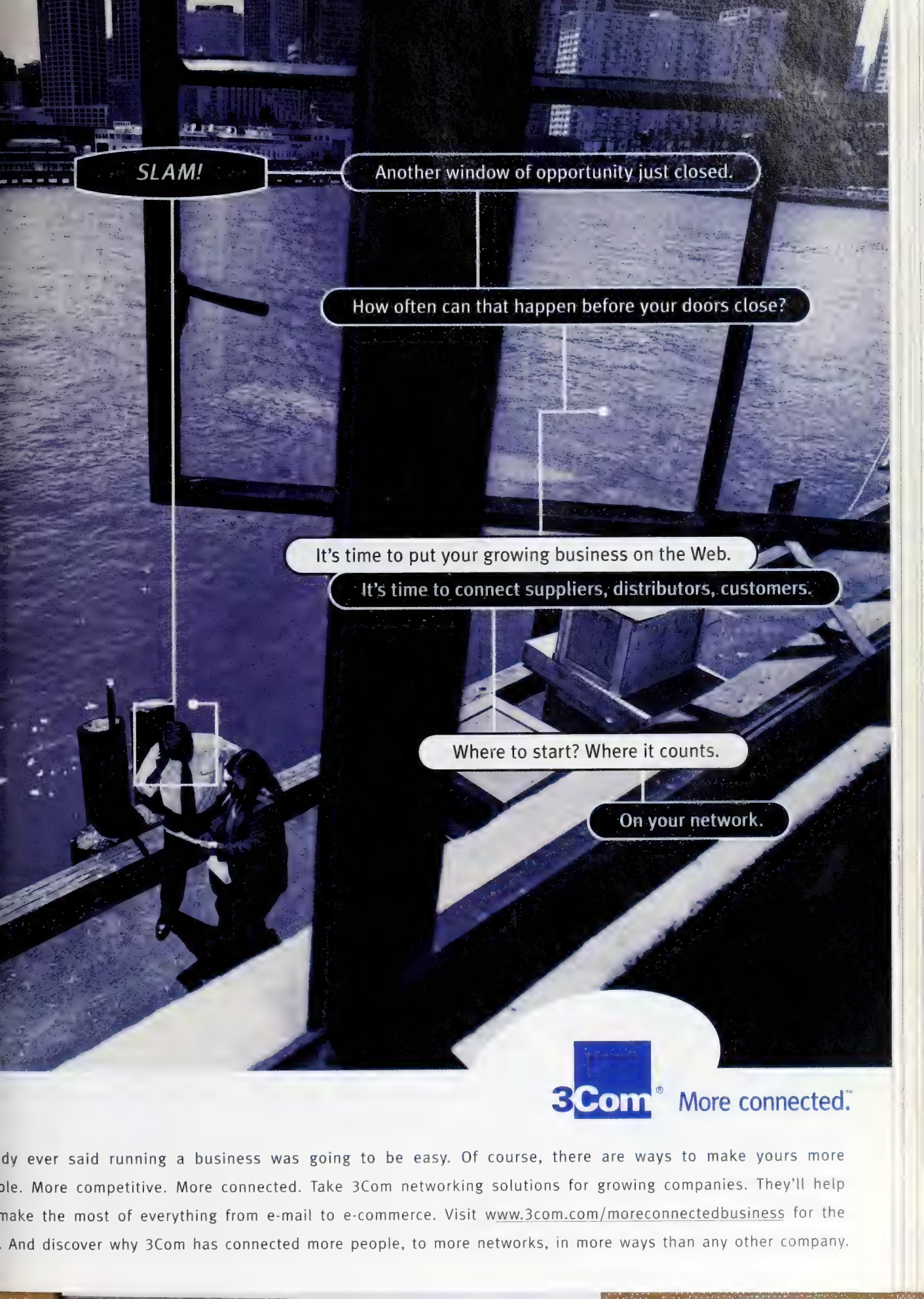
and TCI's Liberty Media Corp.—the channel could be a financial trifle addition to the dual revenue stream of subscriber fees and advertising that other cable channels enjoy, TVG will take a cut of every wager.

KENTUCKY TEST. The idea is simple: The new channel is essentially a venue for telephone gambling that the states—Connecticut, Kentucky, Maryland, Nevada, New York, Ohio, Oregon, and Pennsylvania—have already legalized to supplement their off-track betting parlors. Having locked up five

contracts with 18 Thoroughbred tracks, including Chateaugay, Belmont Park, and Aqueduct, TVG aims to broadcast 12 hours a day of races, augmented by programming produced by another Murdoch and one sports joint venture, Fox/Liberty Network.

Subscribers will be required to maintain dormant accounts—to discourage impulse bets—and wagers





SLAM!

Another window of opportunity just closed.

How often can that happen before your doors close?

It's time to put your growing business on the Web.

It's time to connect suppliers, distributors, customers.

Where to start? Where it counts.

On your network.

3Com® More connected.™

Who ever said running a business was going to be easy. Of course, there are ways to make yours more competitive. More connected. Take 3Com networking solutions for growing companies. They'll help you make the most of everything from e-mail to e-commerce. Visit www.3com.com/moreconnectedbusiness for the details. And discover why 3Com has connected more people, to more networks, in more ways than any other company.

will be laid via telephone, the Internet, or set-top cable box. For Murdoch and Malone, TVG allows them to tap into the rich cash flow of the gaming industry without having to deal with all the pesky regulations. "We're not in the business of taking wagers," says United Video President Peter C. Boylan III. "That's what our track partners do."

Still, if the experiment TVG has been running since 1995 in the racing heartland of Kentucky is any sign, United Video could hit the jackpot. There, the average amount wagered monthly by 1,200 subscribers has been as much as \$1,500 each. TVG charges a \$5.95 monthly fee per subscriber, plus 10¢ per wager. On the back end, it has been pocketing a commission of 5.5% on each bet. All this has added up to eye-popping monthly revenue of \$80 per home—more than double what most folks pay for their entire cable bill—to be split between United Video and the cable operator.

If just 12% of the homes in the eight states sign on and wager a modest \$60 each per month, analyst John H. Corcoran of Stephens Inc. estimates that by 2003, TVG could pump out \$60 million in operating profits on revenues of \$100 million. That's not to mention the other 42 states, plus the possibility of beaming the races overseas via Murdoch's constellation of satellite broadcasters such as Japan's JSkyB.

SMALLER RIVALS. Eyeing the potential windfall, United Video spent \$30 million last fall to buy out the 80% of TVG it didn't own from its co-founders. Now, the Tulsa company plans to spend \$40 million to roll out the service to a market that, from the outset, includes 13 million cable- and satellite-TV subscribers—many of them already TCI customers. Still unclear is how TVG intends to launch alongside existing betting services such as OTB in a notoriously fractious industry. "Their plans are still a little confusing—even to us," says William P. Carnevale, president of New York City Off Track Betting Corp., which handles \$935 million in bets a year, 22% of that via telephone.

Nonetheless, TVG bills itself as the potential savior of the sport that TV forgot. Although the amount wagered by Americans is growing, live attendance at races has declined by more than half since 1991. Other small companies are launching similar services linked to TV and the Web, but none has the heft of TVG's owners, who are expected to formalize their partnership next month with the merger of Murdoch's *TV Guide* into United Video. Can it be long before Fox begins production of *World's Scariest Steeplechases*?

By Richard Siklos
in New York

Finance

MUTUAL FUNDS

THAT'S WHY THEY CALL IT VANGUARD

It pioneered index funds—and now it's outpacing its rivals

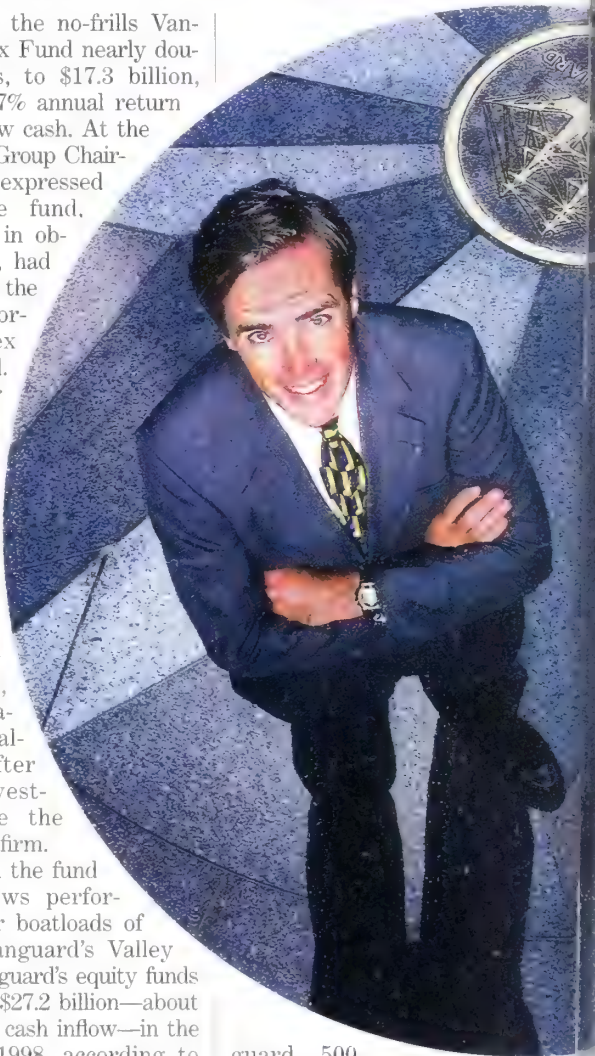
Four years ago, the no-frills Vanguard 500 Index Fund nearly doubled its assets, to \$17.3 billion, swelled by a 37% annual return and \$4.7 billion in new cash. At the time, then Vanguard Group Chairman John C. Bogle expressed some concern. The fund, which had operated in obscurity for 20 years, had become the darling of the day. "I'm a little worried that the index fund is hot," he said. "Hot is not our style."

Well, if the index fund—which tracks Standard & Poor's 500-stock index—was hot then, it's absolutely sizzling now. And building on the success of the S&P and other spin-off index funds, Vanguard—the nation's largest mutual-fund company after No. 1 Fidelity Investments—has become the hottest mutual-fund firm.

HOT BOND FUNDS. In the fund business, cash follows performance, and last year boatloads of money put in at Vanguard's Valley Forge (Pa.) dock. Vanguard's equity funds took in an estimated \$27.2 billion—about 17% of the industry's cash inflow—in the first 11 months of 1998, according to Robert L. Adler, whose AMG Data Services tracks flows to mutual funds. It's also 22.5% greater than Vanguard's equity cash inflow for all of 1997. It's also remarkable, considering that cash flows to equity funds fell 26% industrywide from January, 1998, to November, according to the Investment Company Institute.

As investors scan 1998 results in coming weeks, Vanguard is going to look even more appealing, and the cash heading toward the now \$74.2 billion Van-

guard 500 Index fund should surge. But it's not just index funds that attract new money. Adler says only a third of 1998's cash went to the portfolios. Nonindex Vanguard funds such as Windsor II, Health Growth & Income, and Primecap also saw significant new dollars in 1998. Vanguard's actively managed funds are certainly top-tier performers when compared with other large mutual-fund companies (table).



How Vanguard Equity Funds Stack Up

TOTAL RETURN*

CUMULATIVE AVERAGE TOTAL RETURN*

CUMULATIVE AVERAGE TOTAL RETURN*

GROUP	1-YEAR	FUND GROUP	3-YEAR	FUND GROUP	5-YEAR
AMERICAN	18.39%	AMERICAN	70.95%	PUTNAM	117.40%
FIDELITY	18.35	FIDELITY	62.04	AMERICAN	116.65
VANGUARD	15.32	VANGUARD	61.80	VANGUARD	115.55
PUTNAM	14.25	PUTNAM	58.90	FIDELITY	115.24
IDS	12.39	IDS	58.11	OPPENHEIMER	102.47
OPPENHEIMER	10.10	OPPENHEIMER	57.41	T. ROWE PRICE	95.45
T. ROWE PRICE	8.13	T. ROWE PRICE	51.38	IDS	92.79
NHEIMER	8.00	AIM	42.26	AIM	74.54
MERRILL LYNCH	4.88	MERRILL LYNCH	33.85	FRANKLIN	72.31
FRANKLIN	-1.91	FRANKLIN	31.38	MERRILL LYNCH	62.62

AVERAGE RETURNS ARE FOR ALL EQUITY FUNDS OF 10-LARGEST FUND COMPANIES (EXCLUDING MONEY-MARKET FUNDS). RETURNS EXCLUDE INDEX FUNDS
*APPRECIATION PLUS REINVESTMENT OF DIVIDENDS AND CAPITAL GAINS BEFORE TAXES FOR TIME PERIODS ENDED DEC. 31, 1998, PRELIMINARY RESULTS

The Vanguard bond funds, where the company's obsessive attention to keeping expenses low really pays off, are on a roll as well. They garnered about \$16.8 billion in new cash in the first 11 months of 1998—about twice the sum for all of

NEW LEAF: CEO Brennan backs giving access to rivals' funds

1997. It's also nearly one in four dollars that went into bond funds industrywide. Vanguard's best-selling bond fund of the year? You guessed it. One of its bond-market index funds.

PENNY-PINCHING. So Vanguard is the hot fund manager? That's a bit ironic, since the index funds are by definition not, at least not by highly com-
d portfolio managers. Most of k is automated and performed puters. Extremely low costs—rd 500 Index levies no sales and has expenses that are about th that of the average mutual re one reason why the penny-; Bogle early on pushed into in- The rest of the industry ignored ing that investors would never or just "average" (page 108).

averages have turned out to be ht spectacular—and few com- have been able to beat them. 1998, even with a backdrop of

global economic instability, the S&P 500 earned a 28.58% total return. Only 17% of actively managed, U.S. diversified equity funds were able to clear that hurdle, according to Morningstar Inc. Now, nearly all the major fund companies offer S&P 500 index funds as well. "You only have to look at the index funds that have started elsewhere to know that Vanguard is having an impact on the industry," says Vanguard watcher Daniel P. Wiener, editor of the *Independent Adviser for Vanguard Investors*. But only a few do it with equally low expenses, and most would prefer that investors opt for the higher-margin, actively managed funds.

To be sure, Vanguard is not about to catch archrival Fidelity, but it is closing the gap. As of Nov. 30, Vanguard commands \$428.4 billion, or 8.83% of all mutual-fund assets, vs. Fidelity's \$613.4 billion, or 12.65%, according to Financial Research Corp. In 1994, Vanguard was also the second-largest fund company, but then it had only 6.47% of industry assets, compared with Fidelity's 12.55% (chart, page 86).

Sometime this year, Vanguard is expected to take Fidelity's long-held crown as manager of the largest equity fund: The Vanguard 500 Index fund could overtake the \$83.6 billion Fidelity Magellan Fund. Magellan will not cede the title lightly. In 1998, the giant gained an index-busting 33.2%.

But Fidelity won't be able to rely on Magellan's winning ways to lure in new bucks. As part of a management overhaul, the Boston-based giant closed the fund to new investors. And despite strong returns by many of its funds in 1998, Fidelity's actively managed equity

funds took in only an estimated \$2 billion, says Fidelity watcher David J. O'Leary of Alpha Equity Research. That's a pittance compared with Fidelity's glory years, and it is way less than the \$5.1 billion that O'Leary says flowed into Fidelity's index funds. Still, Fidelity is bound to be a tougher competitor this year, as the good news about improved returns gets around and bad news about weak returns, management turmoil, and fund managers' personal trading fades away.

NEW NET SERVICES. Vanguard's success comes not so much because of any recent initiatives that the company has taken, but because market forces came around to what the company has been doing for years. Still, under the leadership of Chairman and Chief Executive John J. Brennan, Bogle's longtime right-hand man who succeeded him as CEO three years ago, Vanguard has started to adapt to the changing investment environment.

Most notably, in recent months Vanguard has given a higher profile to its discount brokerage

arm, Vanguard Brokerage Services, extending its trading services to the Internet in a service called Access vbs. As part of that expansion, Vanguard has boosted to 2,000, from 400, the number of mutual funds that it makes available through the service—all of them from Vanguard's competitors.

That puts Vanguard in a better position to compete with the mutual-fund supermarkets that are operated by Charles Schwab & Co. and Fidelity Brokerage Services. And it's a new leaf under Brennan; Bogle was a critic of the supermarkets, complaining that they en-

The Low-Cost Producer

EXPENSE RATIO*
1993 1998

VANGUARD	0.43	0.36
FIDELITY	1.50	1.18
ALL EQUITY FUNDS	1.43	1.56

*Actively managed domestic and international equity funds

DATA: MORNINGSTAR INC.

Economic Vitality in a Volatile World

How Will the Americas Face the Challenge?

Find out by joining us at



The Global Challenge— Latin America in the World Economy

*March 24-26, 1999
Sheraton Bal Harbour Beach Resort
Bal Harbour, Florida*

Latin America's successful efforts at foreign debt reduction, liberalized trade, privatization programs, and deregulation of financial transactions have garnered international praise. Yet worldwide economic conditions are forcing Latin American economies—considered hot just one year ago—to withstand a capital freeze. How will the social, political, and economic fabric of the region endure this climatic shift?

Don't miss the broadest coverage and most insightful analysis of the challenges confronting the American Hemisphere. From the Asia crisis and the role of regional trading blocs, to multinationals and what is necessary to develop a truly, sustainable economy—we've gathered the business, political, and economic leaders you need to hear—and meet—only at *The 1999 Business Week Americas Summit*.

BusinessWeek

EXECUTIVE PROGRAMS

sponsored by

T&T

Global Delivery Services from the
United States Postal Service

Portel Networks

produced with the cooperation of
U.S. Department of Commerce
U.S. & Foreign Commercial Service

in association with
The Association of American Chambers
of Commerce in Latin America

Foreign Policy Magazine

The Harvard Institute for
International Development

The Institute for
European-Latin American Relations

Featured Speakers:



David D. Hale
Global Chief Economist
The Zurich Group



The Honorable
Thomas F. "Mack" McLarty III
former Counselor to
President Clinton and Special
Envoy to the Americas



The Honorable
Félix Peña
Undersecretary of Foreign
Trade, Argentine Ministry of
Economy, Public Works
and Services



Nancy Birdsall
Senior Associate
Carnegie Endowment for
International Peace; former
Vice President, Inter-American
Development Bank

Special Address By:



The Honorable
Andrés Pastrana
President of
The Republic of Colombia

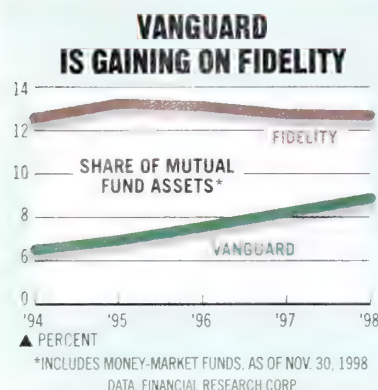
Additional Speakers:

- The Honorable Bernard W. Aronson, Chairman, ACON Investments, LLC and Newbridge Andean Partners, L.P.
- The Honorable Alvaro García Hurtado, former Minister of the Economy, Republic of Chile
- The Honorable James R. Jones, former U.S. Ambassador to Mexico
- Felipe Larraín, Ph.D., RFK Visiting Professor of Latin American Studies, JFK School of Government, Harvard University; Director, Central America Project, HIID
- Jesús Seade, Assistant Director, Policy Development & Review Department, International Monetary Fund
- The Honorable Professor Paulo Renato Souza, Minister of Education Federative Republic of Brazil

Registration Information:

to register for *The 1999 Business Week Americas Summit*
for more information contact Julie Terranova,
Registration Manager,
Phone: 800-821-1329 (inside the U.S.)
212-512-2184 (outside the U.S.)

Fax: 212-512-6281
E-mail: julie_terranova@businessweek.com
Fax on demand: 800-821-1329, document #80



couraged bad investment habits, such as short-term trading. "Brennan has decided the relationship Vanguard enjoys with its clients is vital, even if it has to be in the position of offering non-Vanguard products," says Burton J. Greenwald, a consultant to the mutual-fund industry. "Vanguard doesn't want its customers to look to Schwab, Fidelity, or Merrill Lynch as their primary supplier of financial services."

UNIQUE CORPORATE STRUCTURE. One area where Vanguard will always have an edge is on costs. Besides cultivating a cost-cutting culture, parent Vanguard Group has a corporate structure that's unique in the mutual-fund industry. It's organized like a mutual insurance company, with the shares in the parent owned by the funds themselves. Thus, the parent doesn't look to make a profit but to service the funds at cost. All the other major mutual-fund companies, both public and private, have shareholders who are looking to earn a profit on running funds. Perhaps that's why, despite the success of Vanguard, it has not had any noticeable impact on expenses industrywide, which have been climbing in recent years (table, page 83). True, Fidelity's expense ratios have dropped, but that's mainly because some of its mutual funds have performance-based fees, and with their returns lagging, they have paid management fees at a reduced rate.

Vanguard itself would be the first to tell you the S&P 500 index fund is no magic bullet. It only looks that way because of a long cycle in which large-cap stocks trounced small- and mid-caps, and thus S&P 500 index funds beat the portfolio managers. Should the market's preferences change, the S&P 500 index funds might pale. But lean and mean Vanguard has plenty of other funds, both index and actively managed, to take up the slack.

By Amy Barrett in Philadelphia and Jeffrey M. Laderman in New York

HERE'S WHERE THE DOUGH REALLY RISES

Call them index funds on steroids. Offered by such companies as Rydex Series Trust, ProFunds Advisors, and Potomac Funds, they promise outsize returns by buying and selling index options and futures rather than just stocks. Last year, these leveraged index products accounted for 2 of the 10 best-performing mutual funds.

Not surprisingly, the top leveraged index funds tracked the NASDAQ 100, comprised of the largest 100 stocks trading over the counter. Dominated by technology stocks such as Microsoft, Intel, and Cisco, the NASDAQ 100 soared 85% last year.

Leveraged funds, most of which are quite small, guarantee serious extra bang for your buck—125%, 150%, even 200% of index returns. The bang comes from derivatives—

seeks to double the return of the NASDAQ 100 index, jumped 185.3% last year, while Potomac OTC Plus rose 104.2%.

Leverage, of course, cuts both ways. Sapir's fund plunged when market sold off in the third quarter last year. And his OTC short fund was down 67.5% in 1998. "As exciting as it can be on the upside, it can be equally as bad on the downside," says Kevin McDevitt, an analyst with Morningstar Inc.

The first souped-up fund was launched by Rydex of Rockville, Md. The Nova fund—offering 1.5 times the return of the Standard & Poor's 500-stock index—was pitched to sophisticated investors such as fund managers. With large portfolios, they can use the funds as a hedge while wading into options and futures markets themselves. While most funds penalize managers with redemption fees, Rydex, Potomac, and ProFunds—all based in the Washington area—have none. Investors can maximize time to their heart's desire. "We don't care how much people switch around in our funds," says Skip Virag, Rydex president.

While these funds weren't designed for mom and pop, they are attracting a wider audience. A growing number of individuals, rightly or wrongly, feel sufficiently savvy to handle huge risks. Rydex' assets under management have swelled from \$15 million

1993 to \$3.7 billion last year—including \$915 million in the leveraged fund. The Potomac OTC fund grew from \$5 million to \$80 million last year, while the ProFunds Ultra swelled from \$10 million to \$264 million.

It makes some analysts uneasy. "Last year didn't scare enough people," says A. Michael Lipper of Lipper Inc. "These funds will draw interest until the speculative phase of the bull market is over."

By Andrew Osterland in Chicago

BRAWNY INDEX FUNDS

FUND	INVESTMENT GOAL	1998 TOTAL RETURN*
RYDEX NOVA	1.5 times S&P 500	35.1%
RYDEX URSA	Inverse of S&P 500	-19.0
PROFUNDS ULTRAOTC	2 times NASDAQ 100	185.3
PROFUNDS ULTRAOTC SHORT	-2 times NASDAQ 100	-67.5
POTOMAC OTC PLUS	1.25 times NASDAQ 100	104.2
POTOMAC OTC SHORT	Inverse of NASDAQ 100	-53.0

*Appreciation plus reinvestment of dividends and capital gains before taxes
DATA: MORNINGSTAR INC.

index options and futures that can be bought with only a small downpayment on a contract's value. A targeted return is achieved by combining options and futures with cash and underlying stocks. You can buy funds based on other indexes or that go short—selling options or futures to bet on an index going down. "We give investors the most amount of investment exposure [to an index] they can get through mutual funds," says ProFunds CEO Michael Sapir. The firm's UltraOTC fund, which

listed are optional.



Mercury/Association of Dealers part of U.S. Mercury



Mercury is a Division of Ford Motor Company. For more information, visit us online at www.mercuryvehicles.com



ALL-TECH CEO HOUTKIN
UNDER FIRE FROM
MASSACHUSETTS

SECURITIES MARKETS

DAY OF RECKONING FOR DAY-TRADING FIRMS?

Regulators, alleging fraud and other problems, are cracking down on the industry

The lure of quick profits from skyrocketing tech stocks was too much for Isaac Belbel and John L. Powell. The two friends, one an ex-broker and the other a former restaurant owner, spent the last year in front of computers in Watertown, Mass., at a branch office of All-Tech Investment Group Inc. They were executing rapid-fire trades on a daily basis in companies such as Dell Computer, Amazon.com, and K-tel. Their goal: to make money on small price swings in these volatile stocks.

But the duo's stock market thrill ride ended in disaster. They lost at least \$200,000 trading for themselves and five friends, say Massachusetts securities regulators. On Dec. 10, Massachusetts regulators charged Belbel and Powell with trading without a license—regulators said they needed it because the two men were trading for others.

Regulators also threw the book at All-Tech for numerous securities violations, including fraud. "All-Tech's Watertown office was a vipers' nest," complains Mathew J. Nestor, chief of enforcement for the Massachusetts Securities Div. Belbel declined to return phone calls. And both Powell's attorney, William Bulger Jr., and All-Tech Chief Executive Harvey I. Houtkin strongly deny the charges.

All-Tech, based in Montvale, N.J., is just one of dozens of day-trading firms being targeted in a crackdown by state regulators (table, page 90). The crackdown may result in significant industry reforms. Philip A. Feigin, executive director of the North American Securities Administrators Assn. (NASAA), which represents state securities regulators, says there are widespread problems among day-trading firms. He is spearheading a national

task force to study the industry with an eye toward stricter enforcement. "They have taken the art of making money and turned it into a science," he says.

The day-trading industry began in 1988, when federal regulators cracked down on stock-trading rules to allow individual investors to execute trades on the stock market more easily. It really took off in the few years ago with proliferation of firms using new software designed to execute split-second trading. Investors sign on with day-trading firms that are licensed by the National Association of Securities Dealers (NASD). They have special software that provides information on the flow of orders and instant access to NASDAQ stocks. The traders monitor small price movements in active stocks, trying to profit from changes of as little as a quarter of a percent or eighth of a percentage point. The

able information and effective
communication are keys to business success.
CeBIT delivers the world of information
and communications technology.



Experience the technologies that are
driving the business world forward.
Experience CeBIT.

www.cebit.de
www.hfusa.com

Information Technology
Network Computing
Automatic Data Capture
Development, Design, Production, Planning
Software, Consulting and Services
Telecommunications
Office Automation
Bank Technology
Card Technology/Security Equipment
Research and Technology Transfer

CeBIT is the most influential
information and communications
technology event in the world. Each
year more than 7,000 exhibitors
from 70 countries present the latest
products, technologies and services
available in the world marketplace.
Don't miss the solutions and
developments that can help drive
your business into the future.

CeBIT 99

See IT first! See IT all!

Hannover
March 18-24, 1999

World Business Fair
Office Automation
Information Technology
Telecommunications

o for ticket and travel information!
o Fairs USA, Inc.
o gie Center
et NJ 08540
o 987-1202
o 987-0092
o it@hfusa.com

Some of the sharpest criticism is coming from established Wall Street houses such as Merrill Lynch

als execute as many as 100 trades daily and usually close out their positions before the end of the day. The firms make money from the commissions, usually 2c to 3c a share. Day traders are a small subset of online traders.

But day traders play a major role in a critical segment of the market—the 100 most actively traded NASDAQ stocks. James Lee, president of the industry's trade group, the Electronic Trading Assn., says there are about 40 day-trading firms nationwide, but eight control 85% of the market. All told, the industry represents 12% to 15% of NASDAQ's daily volume, he claims.

Some of these firms are promoting electronic day trading as a way to make a lot of money. But industry regulators are keeping a close watch on those marketing claims, which sometimes hide the risks, says Mary L. Schapiro, president of NASD Regulation Inc., NASD's enforcement unit. Schapiro also vows to be tough on promoters who "suggest that day trading is 'the best entertainment since television'" — a claim All-Tech's Houtkin made in a radio interview last fall.

PROFIT WATCH. Regulators are also discussing whether day-trading firms need to take more responsibility for their clients' trading. Under current rules, brokers must make sure that the investments they recommend, such as stocks, futures, or options, are suitable for their clients' financial position. Now, with firms pushing day trading for novice investors with limited capital, "there's a question where a suitability requirement exists when a company is recommending a trading style rather than a product," Schapiro says. No new rules are yet on the table, but "we [regulators] talk about it a lot," she adds.

David Schellenberger, a Massachu-

setts enforcement official who heads NASAA's task force on day trading, says he wants to find out if any day traders actually make a profit. In one enforcement case brought against a Massachusetts branch of now defunct Houston day-trading firm Block Trading Inc., the state found that 67 of 68 customers lost money. "If no one is making a profit day trading, that raises a disclosure issue," says Schellenberger.

State regulators have been aggressively going after firms that make misleading and unrealistic advertising claims. They are also concerned about

its and losses. Some states, including Massachusetts and Texas, claim these arrangements violate statutes that require individuals who trade with others to register as investment advisers. But the Electronic Traders Association claims that without the agreement, the industry would be "seriously undermined."

GYRATIONS. Not surprisingly, established Wall Street houses are upstart day traders' sharpest critics. And tensions are running high because of the extraordinary valuations of Internet stocks that have left most

professional investors on the sidelines. Muriel F. Siebert, chairman of Siebert & Co., an investment count broker, believes day traders are responsible for irrational volatility in stocks, including her firm's own. "The industry should be subject to stricter licensing rules. 'You can't trade these people wild,'" she adds.

Merrill Lynch's John L. Steffis, vice chairman, also believes day trading has made a mess out of the market. He says day trading has created problems for customers, and

it is hard for Merrill to execute orders for a stock that is gyrating wildly, he says. "I think this day trading is a good way to lose money. It's not good for anybody. It's not a lot different than betting red or black." Houtkin contends that big brokers feel threatened by competition, now that the small guys have the same access to the market as they do.

Houtkin may have a point. Unless the day-trading firms change their act, the regulators are likely to get them.

By Geoffrey Smith in Boston, Mike McNamee in Washington, Leah Nathans Spiro in New York

DAY TRADING: THE TROUBLE SPOTS

INFINITUM MANAGEMENT

JAN. 6, 1999 Texas orders firm to stop day trading while unregistered in Texas and fines principal and eight others \$44,000

BLOCK TRADING

DEC. 17, 1998 Wisconsin regulators allege Block sold an unregistered franchise to an investor

OCT. 19, 1998 Massachusetts regulators allege fraud, unlawful loan scheme, and encouragement of unregistered investment advisory activity in a branch office

ALL-TECH INVESTMENT GROUP

DEC. 10, 1998 Massachusetts regulators allege deceptive marketing,

fraud, forgery, and the establishment of fictitious accounts in a branch office

BRIGHT TRADING

NOV. 9, 1998 Massachusetts regulators allege an office operated a day-trading business without registering as a broker-dealer

GENERIC TRADING ASSOCIATES

MAY 27, 1998 Colorado regulators impose limitations on advertising

EXCHANGE HOUSE

SEPT. 30, 1997 Texas regulators settle complaint that individuals executed day trades for others without registering with state

the financial stability of such firms, and whether regulations adequately protect consumers and the markets.

Feigin says the capitalization of many day-trading firms is too thin. The problem is compounded because some firms offer day traders no-money-down loans or rely heavily on margin from clearinghouses, he says. Feigin's worry: Trading revenues may not cover losses in the event of a market downturn.

Day traders rely heavily on margin to leverage their capital. They typically start with \$50,000 to \$100,000 of their own money and double it by borrowing on margin. Many traders also rely on loans from family or friends, signing partnership agreements that spell out how the parties will split prof-

FOR SEARLE,



THE PERFECT MEDICINE

JACK MICHELSON
CORPORATE
SR. VICE PRESIDENT
SEARLE



DANIEL LEBRON
PRESIDENT & GENERAL
MANAGER
SEARLE, PUERTO RICO

...d that medicine is a dedicated, highly skilled local workforce; an infrastructure for pharmaceutical manufacture that is among the best in the world; and new opportunities provided by the 1998 Industrial Tax Incentives law. In fact, Searle recently demonstrated its strong commitment to Puerto Rico by announcing a \$200 million expansion, including an additional pharmaceutical manufacturing facility to go hand-in-hand with our 30-acre state-of-the-art manufacturing complex.

Searle manufactures more than 20 products in Puerto Rico, including cardiovascular, arthritis and anti-insomnia drugs, and employs approximately 700 people - a figure that will increase to 1,500 based on the expansion. More than 95% of Searle's sales in the U.S. are generated by products manufactured in Puerto Rico.

Our continuous growth and success reaffirms that Puerto Rico was - and is! - the right medicine for our business.

With our open-door, pro-business government and our comprehensive tax exemptions, Puerto Rico, USA, is the perfect site for your business.

- ▶ A new tax incentive law with an effective tax rate as low as 2% and a maximum of 7% for manufacturing and export-oriented services.
- ▶ 200% deduction of R&D costs.
- ▶ 200% deduction of training costs.
- ▶ Full expensing of investment in plants, parts & equipment.
- ▶ Ample supply of skilled production workers.
- ▶ Highly educated, bilingual managers and executives.
- ▶ The most advanced infrastructure in the region.

All of this, while being able to place the "Made in USA" label on your products. And of course, in Puerto Rico, USA, you will find a beautiful climate all year round and an enviable quality of life. No wonder half of all Fortune 100 companies are established here!

Want to know more? Just call for additional information or contact us and let us prove to you that Puerto Rico means business!

www.pridco.com

1-888-5-PRIDCO

PUERTO RICO USA
THE PERFECT BUSINESS CLIMATE

BY GENE G. MARCIAL

CHRISTIANITY ON THE WEB

Make no mistake about it: Internet stocks are only for those with strong stomachs and deep pockets. Didax (AMEN) bolted like lightning within days—from 3½ a share on Nov. 23 to 20 on Nov. 27, hitting 40 by Nov. 30. Now, it's back at 10. But some investors are betting it will make another run—probably back up to the mid-20s, in the view of a San Francisco money manager who has close ties with the company. Didax considers itself the nation's leading Christian network: It has formed a Web site called crosswalk.com that

WILL DIDAX RUN UP AGAIN?



provides information and services—including financial advice, and products such as Christian music, books, and movie guides.

The stock made its first big move when the company launched an online music channel. And when Didax CEO Bill Parker appeared in late November on CNBC to discuss the company's Web site, the stock hit the roof.

Now, says the California money pro, Didax is talking about forging strategic partnerships with Net biggies such as America Online and Amazon.com. He says Didax wants to be the "ultimate source" of everything Christian for its customers. He isn't sure which of the companies Didax will form alliances with, but he expects an announcement will be made soon.

The company, which has yet to turn a profit, generates its revenues from advertising space, memberships in affinity marketing programs, and product sales. In 1998, sales were just about \$1 million—and should be three times as much this year, figures the California money manager. In the first nine months of 1998, Didax posted a loss of \$2.2 million.

Parker says that the number of members in crosswalk.com more than

tripled, to 147,000, during 1998, while the number of pageviews soared—from 200,000 to 2.2 million.

New services to be added this year, says Parker, are cultural features as well as news reports on sports and the entertainment business. "We intend to get the loyalty of all Christians and drive up our Web-side traffic and membership," he says.

FINOVA IS ON THE PROWL

One thing that he didn't want to do, says Sam Eichenfield, CEO of Finova Group (FNV), was to increase the company's assets and earnings through buyouts. But with the decline in market value last year of many specialty finance companies, Eichenfield has lately embarked on a new strategy: He says he'll pursue large acquisitions to make sure Finova, which provides secured commercial loans to small and midsize companies, can continue to dominate its niche markets.

One New York money manager says Eichenfield is looking at four finance companies as targets, which, if acquired, could double Finova's assets and earnings.

DOGGED BY INDUSTRY CHAOS



says David Sochol, an analyst at Legg Mason Wood Walker. As such, he adds, Finova can "take advantage of the current market turmoil resulting from the decline in junk-bond issues and initial public offerings, which has hit companies that securitize loans. Prudential Securities' James Thayer is impressed with Finova's "successful conservative strategy during this time of turbulence." He expects Finova to post earnings of \$2.85 a share for 1998 and \$3.30 in 1999. His 12-month target for the stock, now at 56 a share, is 75.

CLOSELY WATCHING TRAINS AT GATX

If GATX, a major lessor of rail cars, doesn't watch out, war investment manager Ed Wachenheim III, some financial giant may lay to it. Wachenheim, president of Wachenheim Associates in Purchase, N.Y., thinks that the stock of GATX, which has dropped to 37, from mid-July, is way underpriced—worth 65, or 20 times his 1999 earnings estimate of \$3.25 a share. At current price, the stock's price-earnings ratio is only 11.

That's a ridiculously depressed price, argues Wachenheim, because earnings are expected to grow by only 15% a year. Wachenheim, who accumulated 1.5 million GATX shares for clients, says he doesn't know sure that a suitor is looking for GATX. "But if the GATX price comes down, the company is likely to be a large financial company," he adds.

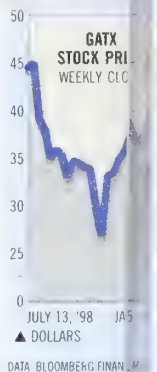
Since banks usually obtain financing at a lower cost than other companies, bank acquiring GATX would be able to increase its own earnings very significantly, explains Wachenheim.

Apart from leasing railroad tank cars, GATX also finances the leasing of other equipment, including airplanes and construction equipment. Wachenheim notes that because of GATX' efficiency and expertise in the business, such major banks as J.P. Morgan and Chase Manhattan Bank have hired

GATX to manage their leased equipment. Recently, Swissair and Republic Royce also signed contracts for GATX to manage a portfolio of leased aircraft and jet engines.

Donald Zwyer of Salomon Smith Barney, who rates the stock a buy, expects GATX to post 1998 earnings of \$2.70 a share and \$3.26 for 1999.

A LOW PRICE MAY DRAW BUYERS



BusinessWeek ONLINE

For more coverage of the market, visit our Web site at businessweek.com

hed at the Sheraton Seattle. Drop in at www.sheraton.com



urf the web with your laptop. Then retreat to the pool for some in-depth analysis. We give you access to the virtual
orid and breathtaking views of the real one. So before you travel on business, call us, or contact your travel planner.



Sheraton
HOTELS & RESORTS

1-800-325-3535

THERE IS A FINE LINE BETWEEN BUSINESS AND PLEASURE. CROSS IT.

Sheraton is a subsidiary of Starwood Hotels & Resorts Worldwide, Inc.

WorldNet®
Service

Sign up for the Internet service that gets you on the Net faster and easier. And with Excite Online™ powered by AT&T WorldNet® Service, finding stuff is even faster because your favorite news, sports, Web links and more are right on your screen when you log on. Why wait? Call 1 888 GET XCIT ext. 7023.

MOGULS

LARRY FLYNT'S LATEST HUSTLE

Sexgate could give the Sultan of Smut a much-needed boost

It's after noon. Larry Flynt, never a morning person, has only recently awakened and is making calls from his Beverly Hills mansion. The *Hustler* magazine publisher, whose threatened allegations of sexual impropriety drove incoming speaker Bob Livingston (R-La.) from office, has been fielding a lot of calls these days. "I read where Livingston called me a bottom feeder," says the 55-year-old Flynt. "Sure, but look what I found at the bottom."

For nearly 25 years, since the onetime Ohio strip-club owner launched his skin magazine, Flynt has profited from the seamier side. Today, his \$135 million-a-year publishing operation also distributes such lowbrow fare as the paramilitary *S.W.A.T.* magazine and the tattoo guide *Skin and Ink*.

Now, as Washington fixates on Bill Clinton's impeachment trial and charges of sexual misdeeds fly, Flynt's empire of smut stands to clean up. By late January, he plans to publish a special issue called *The Flynt Report* filled with the alleged sexual indiscretions of 11 other congressional leaders besides Livingston. And, Flynt says, House Majority Whip Tom DeLay is among the Washington figures he's investigating. The issue is unlikely to reap many advertising dollars. But Flynt will probably set the cover price high—at around the \$5.99 he charges for *Hustler*.

BRANDED NIGHTIES. Flynt says the outings demonstrate his distaste for the hypocrisy of congressional Republicans. But this is as much about promotion as politics. Flynt expects to spend \$2 million to \$3 million paying women who provided the leads his investigators followed. "We'll make that back easily with *The Flynt Report*," he says. Moreover, he figures the rush of publicity will boost *Hustler's* 750,000 circulation by 10% to 12%, at least temporarily. "And every percent is worth \$40,000 [a month] to our bottom line" of roughly \$27 million.

The Sexgate scandals are only one of the growth opportunities Flynt has been chasing. He is opening *Hustler* stores in Cincinnati and Hollywood to sell videos and lingerie along with gourmet coffee. His company, LFP Inc., is scouting locations for three more stores, says LFP President Jim Kohls. This summer, Flynt also plans to open a *Hustler* casino out-



side Los Angeles. Capitalizing on Washington's scandals is just part of the routine. As far back as 1975, when Flynt published nude pictures of Jackie Onassis, he has used headline-making "exclusives." "If you can get beyond what he is selling, he's doing exactly what a *Good Housekeeping* magazine might do," says John Harrington, publisher of *New Single Issue* newsletter. "He's doing a great job of brand marketing."

But not all of Flynt's empire is thriving. The circulation of *Hustler*, by far his biggest holding, was once as high as 2

million in the mid-1970s. Like most magazines, *Hustler's* circulation has been sliding as people get sexual material on the Internet or over cable. Because *Hustler* gets few ads, Flynt has to rely on circulation for revenues. Last year, circulation was down 2%, says Flynt. But he figures sales of the January issue are nearly 10% ahead of last year's, partly due to the current spate of publicity.

Flynt has 31 other magazines, including the computer-game magazine *Tricks* and *Hot Boat*, a magazine about speedboats. This year, he plans to start an irreverent golf magazine *Backspin* and *Code*, a sort of African-American men. "Niche magazines like those can have a dedicated subscriber base, and the overhead is low," says Roland DeSilva of DeSilva Phillips Inc., a New York investment

FLYNT'S EMPIRE

- Total revenues for LFP Inc., wholly owned by Larry Flynt: \$135 million. Profit: roughly \$27 million.
- Publishes 32 monthly magazines, including commemorative publications, including *Hustler* (circulation of 750,000), *Boat*, with 70,000; and *S.W.A.T.*, with 30,000.
- Owns two *Hustler* stores in Cincinnati and Hollywood. Plans to open 3-4 per year and may take them public. Operates *Hustler* Web site with 50,000 subscribers, paying \$19.95 per month.
- Plans to open a casino in Gardena, Calif., later in 1999.
- Has created video-production unit to make adult videos.

DATA: LFP INC., BUSINESS WEEK ESTIMATE

bank that structures deals for maximizing margins for such magazines. To reach 23%, he says, double those circulation titles.

Eventually, Flynt may take public the retail unit, which earned \$2 million in 1998. Before that, though, there's business in Washington. Flynt says he will out at least one more political magazine before publishing *The Flynt Report* in January. He's huddling, he says, with lawyers and investigators. Maybe people, too.

By Ronald Grover in Los Angeles

recision = hp & oracle



Information to be of any value to you and your organization, it must be precise. HP enterprise servers and applications allow you not only to capture information but to use it, so that your business can continuously improve and more efficiently. For clarification on the subject visit our website at www.hp.com/go/oracle.

ORACLE®



HEWLETT®
PACKARD

© 2004 Hewlett-Packard Development Company, L.P. All rights reserved.

Everyone talks about how
'good design is good business'
but is anyone doing
anything about it?

Yes. And they're getting just what they deserve.

Enter the Annual Business Week/Architectural Record Award

Clients and architects who collaborate to solve diverse business challenges deserve just that – an award of international standing. The Annual Business Week/Architectural Record Awards, sponsored by The American Institute of Architects, honors the achievement of business goals through architecture and distinguished collaboration between clients and architects.

Judges include major business leaders and renowned architects. Categories include interiors,

new construction or renovation projects with budgets ranging from under \$1 million to \$25 million plus. Award recipients are featured in *Business Week* and *Architectural Record*, read by more than six million of the most influential people in business and design.

Get what you deserve. For registration information, call 888-242-4240. Outside the U.S., call 202-682-2400. Or go to www.aiaonline.com. Register by March 16, 1999. Submissions must be postmarked by April 16, 1999.

BusinessWeek

**ARCHITECTURAL
R E C O R D**



THE AMERICAN INSTITUTE OF ARCHITECTS

BY OTIS PORT

ING
PEED OF LIGHT
MPUTER CHIPS

ING WITH LIGHT—
otons instead of elec-
transmit signals—is
ology that has long
t around the corner.
at corner has been
literally.
ic chips promise big
s in speed because
pump data 100 to
es faster than sili-
mits. But there's a
otons normally won't
nd corners the way
s do. Without that,
chips would be fore-
e and expensive, be-
ery "corner" would
be a curve—a sec-
from a circle with a
' a few millimeters,
ds of 0.1 inch.
hanged last month.
ers at the Nano-
s Laboratory on
stern University's
(Ill.) campus sculpt-
ic corners with arcs
as 0.25 microns, or
ches. How? By dig-
p trenches on both
optical waveguides,
s." The air in the
insulates the wave-
keeps the photons
he waveguides con-
an optical-switch
r," producing what
tor Mee-Koy Chin
ie first all-photonics
chip—ideal for the
ized switches in to-
r-optic telecom net-
l, in the future, per-
en optical computers.
ed the technology to
1. Robert Tatum re-
e company that fund-
2 million lab. Tatum
e president of Miami-
S. Integrated Optics
he couldn't get a
nk on that name for
l stock offering. So
ow Nanovation Tech-
ne. □



HOW ULTRASOUND
SCOPES OUT THE
MATERIAL WORLD

SINCE IBM SCIENTISTS
invented the scanning tun-
neling microscope (STM) in
1981, the concept has
spawned an ever larger fam-
ily of instruments that can
create images of the atomic
structures of materials. Com-
ing next: the ultrasonic force
microscope, or UFM.
The STM and its descen-
dants work like supersharp
phonographic needles—they
trace the contours of individ-
ual atoms on a material's sur-

face. But what has eluded sci-
entists are images of the sub-
surface interfaces between
two different materials. How
their atomic lattices match up
is crucial to the performance
of semiconductors, ceramics,
and polymer alloys.
Enter UFM. Using its
pointy tip to transmit ultra-
sonic waves, the device works
as a sort of metal detector to
probe materials. In the De-
cember issue of *Materials*
World, published by the In-
stitute of Materials in Lon-
don, Oleg V. Kolosov reports
that a UFM has mapped the
germanium atoms in silicon-
germanium semiconductors
and spotted defects in ceram-
ic compounds—with resolu-
tions down to 4 nanometers
(a human hair is 20,000 times
thicker). Kolosov helped in-
vent UFM technology while in
Japan in 1993 and 1994. Now
at England's Oxford Univer-
sity, he still collaborates with
Japanese scientists and leads
a local team that's uncovering
new uses for UFM. □

Y2K: THE BUG THAT COULDN'T WAIT

IF YOU THOUGHT YOU HAD ALL OF THIS YEAR TO WRESTLE
with the infamous Year 2000 bug, think again. "The
Y2K bug isn't just a future problem," says David
Lakhani, sales manager of Cougar Mountain Software
in Boise, Idaho. For a lot of accounting software, he
says, "the future is now."
Last month, Lindon T. Taylor learned that the hard
way. His company, Lin Electric in Bluefield, W. Va.,
closed its books on fiscal 1998, ended in November, and
then tried to open fiscal 1999. The computer not only
crashed and reset its date to 1944, its outdated account-
ing system locked up so tight it couldn't be restarted.
The reason: Most accounting programs work with peri-
ods of longer than 12 months—usually at least 18
months—to handle overlaps between company fiscal
years and calendar-year tax periods. So opening a new
set of books now will cross the Y2K trigger point. "What
happened to Lin Electric is going to happen to lots of
people in January," Lakhani worries.
Some 1,200 of Cougar Mountain's 40,000 customers
have yet to upgrade to the Y2K-fixed versions offered for
the past two years. If that's typical, some 3% of all small
and midsize companies are in danger of getting stung by
the Y2K bug—long before they were expecting it. □

SPEAKERS THAT
WON'T TAKE OVER
YOUR LIVING ROOM

BIG COMPUTER MONITORS ARE
getting shoved aside by flat-
panel replacements—and
bulky speakers could be next.
Kwong Quest LLC of Taiwan
last November unveiled its
Benwin-brand speakers. Just
a quarter of an inch thick,
they're based on flat-panel
technology from NXT PLC in
Huntingdon, England. Japan's
NEC Corp. has launched its own
version using the same technology.
All told, 76 manufacturers



have licensed NXT technology.
At least a dozen plan to intro-
duce products this year, says
Robert Young, a consulting
engineer in San Diego.
Unlike normal speakers,
which use pulsating cones to
move air and generate sound,
the flat speakers rely on sim-
ple panels of lightweight,
rigid material. Excited by a
1-inch-thick magnetic motor,
the panels vibrate minutely.
But they pack a big wallop
in the 60-hz to 18-khz
range—much like the sound-
ing board of a violin. For
deep bass, Kwong Quest bun-
dles a subwoofer with a set
of 5-by-7-inch speakers for
\$129. Companies may also
throw in frames and stands
so the speakers can hide be-
hind photos. Neil Gross

PHARMACEUTICALS

THIS DRUG'S FOR YOU

Genetically tailored treatments could transform medicine

The 9-year-old boy was near death when he arrived at the Mayo Clinic last fall. He had leukemia—but that's not why he was so sick. The cause was his medicine. He had been given one of the so-called thiopurine drugs, which have transformed acute lymphoblastic leukemia from a virtual death sentence to a disease with an 80% survival rate. But 1 in 300 Caucasians possess two copies of an otherwise harmless genetic variation that alters the drugs' action in the body. As a result, the medicines' standard dose destroys vital bone marrow.

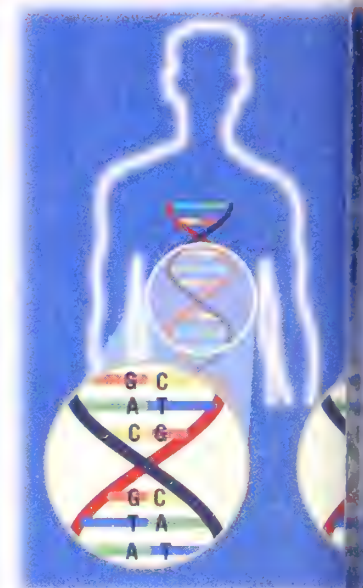
Scientists at the Mayo Medical School discovered this genetic variation in 1980. By 1991, researchers had perfected a simple test to spot it. Now, in one of the first glimpses of a potential revolution in medicine, doctors at top medical centers routinely test for the variation. When it's present, physicians know they must drastically drop the standard drug dose. Yet hundreds of children in the U.S. and around the world still aren't

being tested before the drugs are given—often with tragic results.

The story of the 9-year-old boy has a happy ending: Under the care of Mayo Clinic doctors, his bone marrow slowly recovered. After three months in the hospital, he was able to go home.

His tale, however, reveals both the vast promise of genetically tailored treatments—and the formidable hurdles that lie in the path of a new era of personalized medicine. Treatments genetically tailored for certain segments of the population could, for instance, shrink the market for existing blockbusters, cutting into drug-company profits. And experts worry that even when such treatments are shown to work, they may take years to become widespread.

HIT OR MISS. Still, the new approach will eventually transform medicine. Already, pharmaceutical and biotech companies (table) are investing millions of dollars in the relatively new science of cataloging and exploiting human genetic differences. Those variations, execs



hope, will offer an answer to the industry's top challenge: getting better drugs on the market faster. Currently, about 1 of every 10 drugs that enter clinical trials makes it to market, but most fall by the wayside because they don't work, are too dangerous, or don't fill a market need. "Nothing new is proven in the industry until that number gets better," says R. Scott, president and chief scientist at Incyte Pharmaceuticals Inc. in San Diego, Calif.

But if drug development is combined with genetic analysis—an ideal called pharmacogenomics—researchers

Betting On Customized Drugs

Bristol-Myers Squibb, Novartis, Glaxo, and Pfizer are among the Big Pharma companies that have started internal efforts to use genetic variations called polymorphisms in drug development. Other companies that are involved include:

COMPANY	STRATEGY
VARIAGENICS CAMBRIDGE, MASS.	Searching for polymorphisms in the genetic pathways affected by drugs and doing clinical trials on cancer.
GENSET PARIS	Creating map showing location of 60,000 polymorphisms. Has \$22.5 million deal with Abbott Laboratories.
INCYTE PHARMACEUTICALS PALO ALTO, CALIF.	Aims to find polymorphisms for every single gene, creating databases that can be used for drug development or individualized medicine.
MILLENNIUM PHARMACEUTICALS CAMBRIDGE, MASS.	Created "predictive medicine" subsidiary to use genetic variation to improve drug development. Part of consortium with Bristol-Myers Squibb and MIT's Whitehead Institute.
GENENTECH SOUTH SAN FRANCISCO	Marketing breast cancer drug that works only in those 25% to 35% of people who have a certain genetic variation.

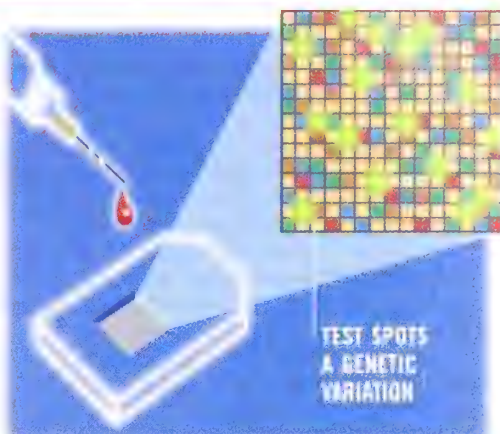


VARIAGENICS CEO LEDLEY

HARNESSING THE POWER OF PHARMACOGENOMICS

A company develops a drug that causes severe side effects in some people. Normally, that drug would never be marketed—even though it has the potential to help thousands. Now, the company can use genetic tests to determine which patients can take the drug safely. Researchers can also use genetic information to design better drugs that won't trigger adverse reactions.

1. Test the DNA of a group of people, some of whom react badly to the drug, for genetic variations. Identify a variation, often a single change in the DNA, that is shared only by those who suffer the side effect.



2. Screen potential patients to identify the people who should NOT take the drug. Blood extracts are dropped on a DNA chip to find out if he or she has the DNA sequence associated with the side effect.

3. Scientists also use the identified variation to locate genes that play a role in causing the drug reaction. They can then redesign the drug to avoid causing the side effect.



to identify subsets of people for the "failed" drug candidates are weeded out—and to weed out those who have side effects. Indeed, Pascal Garnier, CEO of Genset in Paris, figures drug companies could save \$1 billion of an estimated \$5 billion now in drug-development efforts that are wasted. "Many interesting drugs haven't passed trials could be rescued," he explains. The approach should speed drug development as well. Clinical trials can be far more efficient and less expensive since only those people who are likely to respond to an experimental drug would be included in the studies. Any pharmaceutical company that does not exploit the importance of genetic variation is burying its head in the sand," says Michael Silber, director of clinical genetics at Pfizer Inc.

The biological concept underlying this genetic gold rush and potential revolution is simple: Humans are not genetically identical. The spiraling strands of DNA that spell out our instructions contain some 3 billion individual molecules. For any two people, 99.9% of those letters are the same, but the 0.1% difference—about 3 million letters—is crucial. These varied polymorphisms, explain scientists, come in so many different shapes, sizes, and abilities. And the amount of information holds the key to why people respond differently to drugs or are susceptible to diseases, explains Dr. Elliott Sigal, vice president for applied genomics at Bristol-Myers Squibb Co.

For example, the genetic variation makes the standard dose

of thiopurine leukemia drugs lethal. Another polymorphism, announced early in 1998 by Dutch and Canadian scientists, predicts whether or not heart-disease patients will benefit from Bristol-Myers' cholesterol-lowering drug pravastatin. And researchers at Myriad Genetics Inc. have found a variation that explains why salt raises blood pressure in some people but not in others.

SMART BOMBS. Industry researchers expect to find many more such correlations. Even the best drugs work in only about 80% of patients—and many help as few as 20%. Making the connection between people's differing responses to drugs and specific genetic polymorphisms, therefore, should enable drugs to be used like laser-guided weapons instead of dumb bombs. That could dramatically reduce the problem of adverse drug reactions—a problem with an annual price of more than \$5 billion—while boosting health.

The scientific challenge is finding these crucial polymorphisms. There are two fundamentally different approaches. At Variagenics Inc. in Cambridge, Mass., CEO Dr. Fred D. Ledley is betting on variations in biological pathways affected by drugs. "From the time you take a pill, it touches 30 to 40 different proteins before it leaves the body," explains Led-

ley. Variagenics' researchers have identified more than 6,000 genes involved in drug pathways. And in May, 1998, they began a clinical trial to investigate genetic differences in colon-cancer patients being given the potent drug 5-fluorouracil. "The drug works for some, is toxic for others, and fails in others," Ledley says. The trial is expected to show that the reason for the different responses lies in polymorphisms in the drug's biological pathway.

But scientists don't know all the proteins in all the pathways. Dr. Daniel Cohen, genomics chief at Genset, is taking a different tack—looking at all variations, not just those involved in drug pathways. By the end of the year, the company expects to have a map of some 60,000 polymorphisms spaced throughout the genetic code. And in the industry's first major pharmacogenomics deal, a \$22.5 million collaboration with Abbott Laboratories, Genset researchers are looking for polymorphisms that can identify—and weed out—people who would suffer liver damage from Abbott's asthma-

ma drug zileuton. "With predictive tests, we can reduce side effects by 75%," says Cohen. Critics of this strategy say Genset might turn up statistical artifacts or miss many predictive variations because it isn't looking at enough polymorphisms.

Other companies are focusing on a different question. Instead of trying to find genetic variations that predict responses to drugs, they are searching for those that foretell disease itself. At Millennium Pharmaceuticals' Predictive Medicine Division, researchers are comparing the genes turned on in various types of cancer cells in order to spot those that can predict the disease's aggressiveness. "We are going to change the diagnosis of cancer—and change the practice of medicine," proclaims division President Kenneth Conway. Clearly, being able to tell if a patient's prostate cancer is slow- or fast-growing has profound implications for treatment. Already, Millennium has found a gene in melanoma cells that acts like a crystal ball. When the gene is there, the cancer doesn't metastasize. But when it's absent, the melanoma kills.

LONG WAIT. Eventually, it should be possible to catalog each person's thousands of genetic polymorphisms into a sort of "genetic bar code." The bar code will reveal which drugs are safe and effective, as well as identifying susceptibilities to disease. But don't expect that to happen soon. At some point, there will be a genetic test to identify the best treatment for high blood pressure, predicts hypertension expert Dr. Michael Alderman of Albert Einstein School of Medicine—but he doesn't expect it in his lifetime. "The dream was to have a test that predicts 100% of side effects," concedes Genset's Cohen. "This will never happen, because there are too many genes." And if people get hurt, drug-makers may face thorny liability issues.

There are other business concerns as well. If polymorphic analysis shows that a blockbuster works in only 40% of patients, the drug's market will shrink dramatically. "The downside for industry is that not everyone will be a candidate for a particular drug," explains former Bristol-Myers research-and-development chief Leon E. Rosenberg.

All this means that pharmacogenomics is a technology at an awkward adolescent stage. It's enormously promising but far enough from delivering that investors could lose patience before the approach lives up to its potential. "There is a lot of hype," admits Ledley. "But it is also one of those great technologies that is going to make a difference." The question is, when?

By John Carey in Princeton, N.J.

The Corporation

BREAKUPS

NEXT STOP, SPLITSVILLE

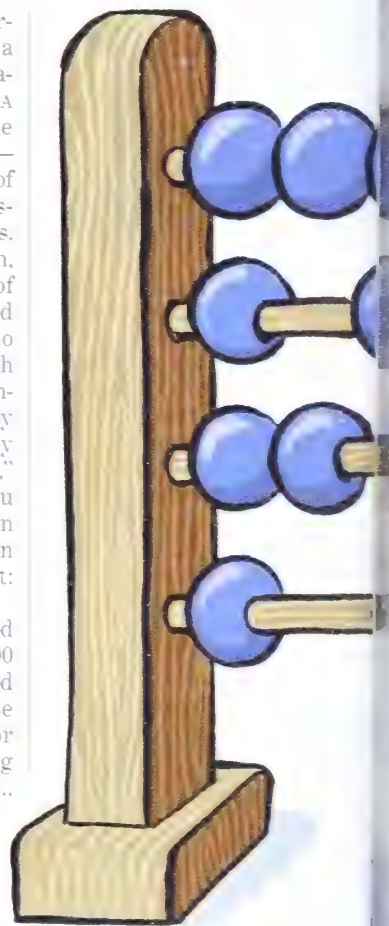
What a divorce will cost Andersen Consulting

George T. Shaheen, CEO of Andersen Consulting, stands behind a podium at the University of Chicago, fielding questions from MBA candidates. Most of the queries come from Andersen Consulting wannabes—students eager to impress the leader of one of the nation's largest, most successful, and highest-paying consulting firms. Then up stands a renegade: a woman, hired by Andersen Consulting out of Princeton University, who left to attend business school. She plans to return to the industry—but not necessarily with Shaheen's firm, in part because of concerns about Andersen Consulting's nasty separation battle from sister company Arthur Andersen & Co. "Wait a minute," Shaheen says, sensing a challenge. "You don't want to come back to AC?" When the woman shakes her head, Shaheen can't resist teasing her with an insult: "No wonder you went to Princeton."

That sort of cocky attitude has helped propel Shaheen and his army of 64,000 to the top of the consulting world. Hired out as experts on projects as diverse as managing purchasing systems for Texas Instruments Inc. and installing finance software for the DuPont Co., they have racked up 20% average annual revenue gains over the past five years. In calendar 1998, revenues exceeded \$8 billion.

PIQUED PARTNERS. But now Andersen faces its toughest challenge yet: negotiating an ugly divorce from auditors Arthur Andersen in the coming months. The consultants have clashed with the auditors almost from the moment they became a separate division of Andersen Worldwide in 1989. But the squabbling boiled over 13 months ago, when Shaheen asked an arbitrator to decide how the two sides should proceed—as one bickering unit or two independent firms.

Shaheen wants independence, which could be expensive. The contract with parent Andersen Worldwide calls for exiting partners to pay 1.5 times annual revenue, or as much as \$10 billion based



THE FIRM

ANDERSEN CONSULTING

CEO George Shaheen

PARTNERS 1,258

EMPLOYEES 64,000 (53,500 are consultants)

'98 REVENUES \$7.8 billion

STRATEGY Expand from accounting, management and technology consulting, building, and running electronic systems

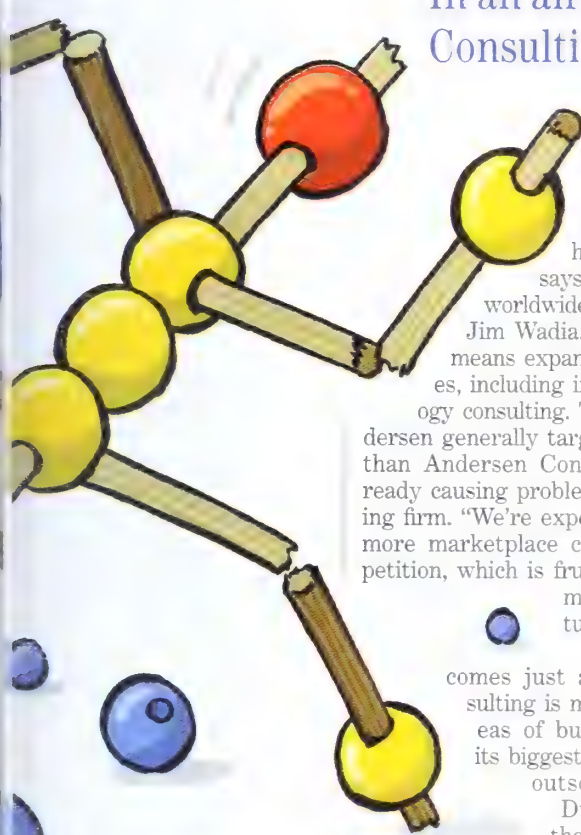
revenues. So far, Arthur Andersen not demanded that payment. Consultants, meanwhile, are re- the return of \$500 million aid the auditing firm since 1994. arguing that Arthur Andersen e contract when it began its ulting business. But Shaheen is risk: If Andersen Consulting is pay anywhere close to \$10 bil- s freedom, it would sap capital is firm is making a push into a growth area: outsourcing the erating a corporation's computer and technology networks. o many failed marriages, this part over money. The power of

the Andersen name—an asset the consultants may be forced to give up in the split—opened doors for the consultants early on. But as the consulting practice exploded, the Andersen Consulting partners chafed at the stratospheric yearly payments they, as the more profitable division, had to pay to balance the firm's income and expenses. For 1998, they are scheduled to kick in some \$200 million. Andersen Consulting expects the arbitration to be resolved by the end of the year, though it could drag out longer since Arthur Andersen has contested the arbitrator's jurisdiction.

Meanwhile, both sides are proceeding

especially in the area of electronic services. Unlike Andersen, computer-servicing giants Electronic Data Systems and IBM can actually buy and install very expensive hardware. And hordes of entrepreneurial outfits can offer narrowly targeted expertise. But Andersen Consulting's strength is its combination of technology knowhow and international reach—it has offices in 46 countries—plus a deep pool of talent. Sprint PCS, the Kansas City (Mo.) cellular-telephone carrier, uses about 150 Andersen consultants to run its internal help desk and other back-office departments. "They can really bring on the armies," says Sherry L. Browne,

In an already crowded field, Andersen Consulting wants to build on its strengths: Tech savvy and global reach



as if they were already on their own (page 102). "We have to be ready,"

says Arthur Andersen's worldwide managing partner, Jim Wadia. For his firm, that means expanding new businesses, including information-technology consulting. Though Arthur Andersen generally targets smaller clients than Andersen Consulting, this is already causing problems for the consulting firm. "We're experiencing more and more marketplace confusion and competition, which is frustrating and detrimental to our future," says Shaheen.

The confusion comes just as Andersen Consulting is moving into new areas of business and placing its biggest bet yet on its new outsourcing practice.

DuPont was one of the first big clients to sign an outsourcing contract with the firm. Andersen employs about 400 people that manage DuPont's order-processing and finance systems under a 10-year contract. When the partnership dispute erupted, DuPont Chief Information Officer Robert R. Ridout worried that it would distract Andersen Consulting's employees and drain its finances. "Had we, in essence, picked a partner that could look at the long term, or could they only focus on the short term?" he recalls thinking. It took face-to-face meetings with Shaheen to calm Ridout's concerns. Still, DuPont has a clause in its contract to provide the option of pulling out of the deal.

Outsourcing is brutally competitive—

chief information officer for Sprint Corp. But it's expensive. Sprint pays up to 40% more for Andersen consultants than it would for technical workers hired off the street. So management plans to take back the business as soon as the expertise can be transferred in-house.

Outsourcing contracts now generate \$1 billion a year for Andersen Consulting, or more than 10% of revenues. Shaheen hopes to increase that to 40% within five years. Although profit margins on outsourcing projects run about 15%, half the level made on traditional consulting jobs, it's a fast-growing area.

SHARK TANK. Shaheen, 54, is no stranger to risk. He pushed Andersen Consulting to its quasi-independent role under the Andersen Worldwide umbrella 10 years ago and followed in 1992 with a shift beyond the firm's traditional expertise in technology systems into business strategy and workforce issues. In late 1996, he reorganized the firm around worldwide industry groups such as financial services and communications, rather than geographical regions. Now, he's leading an E-commerce initiative. "It's the same thing Bill Gates did," he says of his switch. "The Internet will drive change that is fundamental to the way we do business."

Andersen sees a broader system of commerce shaping up in Internet-based telecommunications networks. More and more businesses—from car dealers to health-maintenance organizations—will provide services and information over the Net. "So you need a whole modification of business processes," says Shaheen. "Many will be designed and built by businesses like ours."

Shaheen has clearly staked a lot on

CONS

ARTHUR ANDERSEN

ARTNER Jim Wadia

662

61,000 (7,800 of whom s)

\$ \$6.1 billion, up 17%

ove beyond traditional
ward providing advice on
nance, human resources,
nd business strategy

his firm's technology consulting practice. But as Andersen expands that franchise it will have to wrestle with some fundamental limitations. Rivals such as EDS and IBM are, respectively, about 3 times and 10 times as big as Andersen Consulting. And unlike Andersen, they have the capital to supply hardware as well as advice. One obvious answer would be an initial public offering, but Shaheen says that is not in the cards. He disdains the notion of being accountable to shareholders and is confident Andersen won't need the capital.

Being a partnership also limits Andersen's ability to attract talent. It can't offer stock options to employees below partner—a prized asset for tech workers. Andersen consultants don't have ownership until they become partners, a cut-

throat 12- to 15-year haul most young hires are unwilling to undertake. At other firms, associates are given authority earlier. "The market has changed, and they haven't figured that out yet," says an analyst who left for a job at a small public firm that included stock options. "The world is our oyster."

To address consultant concerns, Andersen has launched programs to reduce travel time and improve communication with partners, but the battle with Arthur Andersen also has taken a toll. Andersen Consulting's churn rate—the percentage of employees leaving each



SHAHEEN: *Divorced crunch his capital*

year—has edged up 16% in 1996 to 18% in 1998. The firm helped persuade a four-year consulting jump ship to Arthur Andersen only weeks ago. "There's a whole lot of turmoil inside," the executive said, arguing the auditing firm maintained better control. "[Andersen Consulting] took the off the people side." What the firm now is a good divorce settlement to move on.

By Roger O. Crockett in

UP FROM BEAN-COUNTING

It was a turbulent year at Arthur Andersen & Co.

The firm landed on the hot seat over financial scandals at clients Sunbeam Corp. and Waste Management Inc., where its insurance company paid out much of an estimated \$80 million to settle shareholder suits. But the auditor ended 1998 on an up note, beating out No. 1 PricewaterhouseCoopers for the auditing business at MCI WorldCom and Banc One and even hanging on to Waste. Even more encouraging is an expected contract to help privatize the vast London Underground rail system. Andersen would structure everything in the deal from human resources to stock options. One thing it won't do much of, though: traditional auditing.

That's just fine with Jim Wadia, Arthur Andersen's worldwide managing partner. As his firm moves closer to a formal split from Andersen Consulting, Wadia is pushing the other side of the Andersen house away from its bean-counter roots. His goal: a multipurpose advisory firm that chases everything from due diligence on stock offerings in China to the design of employee benefit plans in Germany.

Wadia is driven by pure economics. At Arthur Andersen, traditional financial statement auditing grew



WADIA: *Envisions a panoply of services*

just 8% last year and made up only a fifth of the firm's \$6.1 billion in revenues. But consulting grew 38%, to \$1.1 billion. That's not to say that auditing will disappear. Indeed, the firm is rapidly expanding add-on services it sells to auditing clients, such as measuring susceptibility to fraud. But Wadia is concentrating on consulting and advising—an emphasis that nettled his colleagues in Andersen Consulting. "If I had to trade an auditing account for other business, I would do it," he says.

REGULATORS WARY. Wadia, 50, came to the top spot at Arthur Andersen 15 months ago with all the credentials to shake things up. A British national, he's the first nonaccountant

to run the firm. Born in Bombay, educated in Geneva, he made his mark building Andersen's British practice into a big force in tax and corporate finance. As CEO, he has overhauled the management team, expanding it from 10 to 17, sharply reducing the dominance of audit partners, and increasing the number of non-Americans.

But Wadia and his rivals face challenges pushing a panoply of services. The Securities & Exchange Commission is warning that companies should be wary of awarding much business to the Big Five accounting firms for fear of conflict of interest. And some companies are buying into the one-stop-shopping concept. "It has some real economic synergy, but I insist on picking and choosing among an array of suppliers," says Ameritech Chief Financial Officer Oren G. Shaffer, who uses Andersen for auditing and regulatory compliance.

The worst outcome, of course, would be for Wadia to build a new service firm only to face an upsurge of consultants or auditors—in other words, a repeat of Andersen Consulting. "We need to make sure that leaders of all the practices are integral parts of the team," says Steve M. Samek, managing partner for U.S. Arthur Andersen has no intention of making the same mistake twice.

By Richard A. Melcher in

WHAT SAVIN IS DOING TO MAKE XEROX YOUR X-DOCUMENT OUTPUT COMPANY.



You-know-who would have you believe that they're the first and last word in digital document solutions. At Savin, we're working hard to make you believe otherwise.

After all, at Savin we too have the forward-thinking, award-winning technology essential to boosting productivity in today's digital offices. Like our fast, versatile, connectable digital imaging systems that allow you (or your workgroup) to print, sort, duplex and staple—right from your desktop. And full-color digital imaging systems that turn electronic documents into brilliant hard copy.

But that's where similarities end. Because while it would appear that Xerox has dedicated themselves to becoming the biggest document company on the planet, at Savin we're dedicating ourselves to becoming the fastest, most responsive, most easy to work with name in the business. With smart, energetic, highly-trained Savin professionals willing to do whatever it takes to give you the satisfaction and service you deserve.

To find out x-actly what we'll do to win you over, contact us at 1-800-234-1900 or www.savin.com.



savin

WE'VE GOT WHAT IT TAKES TO WIN YOU OVERSM

SAVIN CORPORATION 333 LUDLOW ST. STAMFORD CT 06904

For millions of Americans, frequent-flier miles have become a second currency. In addition to piling them up by hopping on a plane, you can get them by making phone calls, buying toys, investing in mutual funds, taking out a mortgage, or renting cars. "Get 5,000 Bonus Miles FREE," screamed a recent credit-card offer from Banc One to United Airlines' MileagePlus members.

miles you are redeeming.

It's no big deal to figure out which deals are dogs and which are truly valuable. Start by putting a dollar amount on miles to see how much you're spending to buy them and how much they'll end up being worth. Then, analyze every credit-card offer, long-distance solicitation, and frequent-flyer award claim.

Conventional wisdom says
a mile is worth

about 2¢—around what major airlines charge companies that buy mileage for incentive awards to employees or clients. But a mile is rarely worth more than 1.5¢ to most travelers. Why?

For one thing, airlines put heavy restrictions on redeeming miles for tickets, so you probably won't be able to travel for free whenever you wish. Moreover, mileage balances at some airlines, such as United and Ameri-

can Airlines, can expect to pay three years. And airlines change award levels. All told, you probably avoid paying more than 1¢ per mile. Aim to spend in a way that makes you worth at least 1.5¢ a mile.

NO BARGAIN. A few years back, on Delta Air Lines, United, you could have required a free coach ticket from New York to London in April in Paris for 10,000 miles. You could have had the same ticket for 12,000. That made the fre-

YOUR MONEY

TRAVEL

**BEST**

MCI/WORLDCOM Up to 5,000-mile sign-up bonus for long distance, plus 5 miles per dollar spent.

CONTINENTAL AIRLINES/CHASE VISA OR MASTERCARD First-year rate of 7.9% means you're paying only a half-cent per mile. Get rid of the card when the rate spikes up in the second year.

NORTHWEST'S AND CONTINENTAL'S OFF-PEAK AWARDS Snatch up a U.S. ticket for 20,000 miles, except in June through August.

TWA/EAB VISA OR MASTERCARD Card comes with \$100 flight coupon, lowering cost of miles to less than 1¢ apiece.

WORST

NORTHWEST/U.S. BANK GOLD VISA With a \$0 annual fee and only 1,000 bonus miles for signing up, you pay 2.5¢ extra per mile.

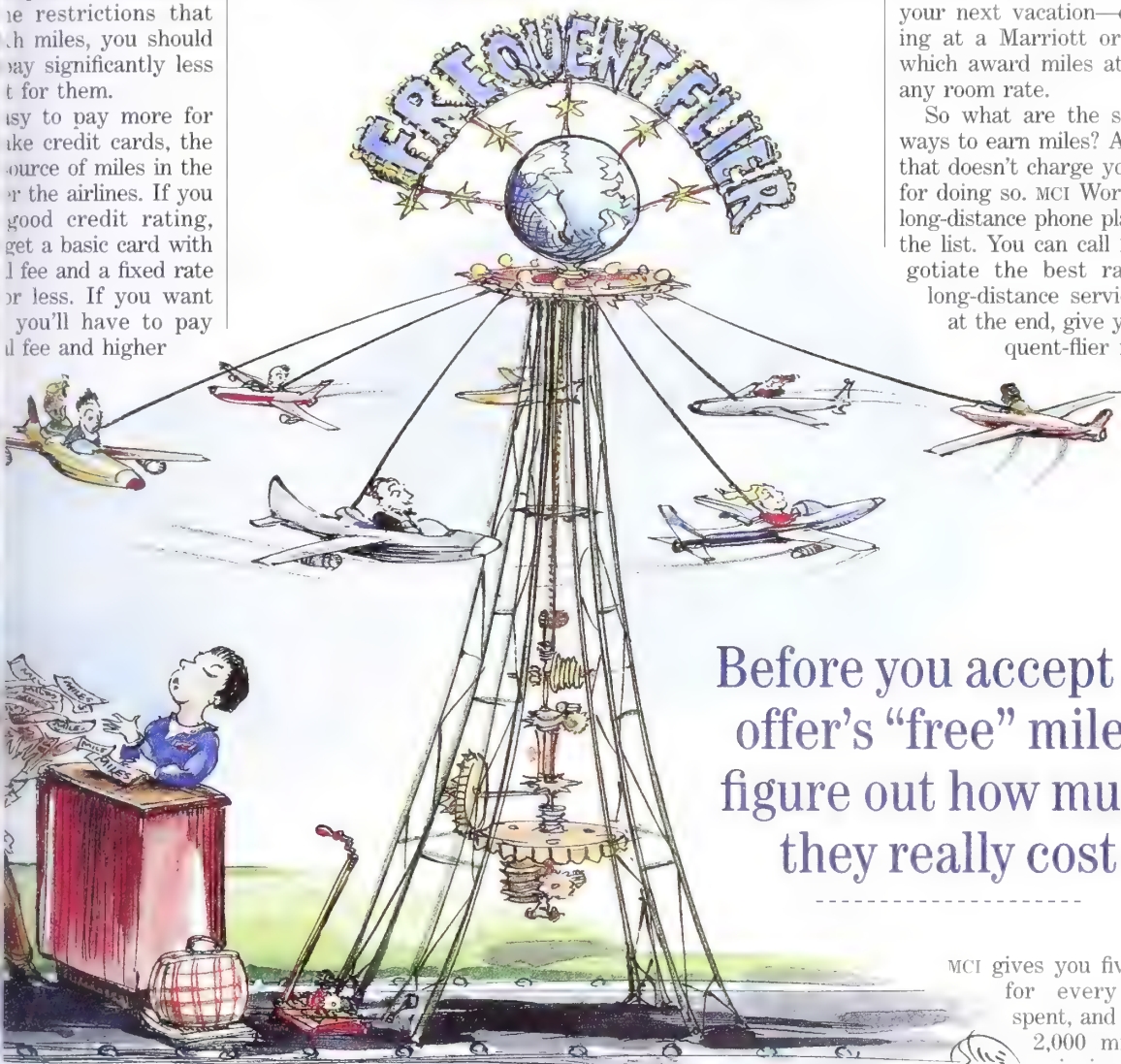
WEEKLY E-MAIL SPECIALS Your miles are worth less than a cent when you combine miles and dollars to buy tickets.

AMERICAN EXPRESS MEMBERSHIP REWARDS The annual fee and no sign-up bonus mean other cards are better for mileage fans.

BUYING MILES American, for example, lets you top off an account by buying 5,000 miles or \$125. Cost: 2.5¢ per mile.

So what are the smartest ways to earn miles? Any way that doesn't charge you extra for doing so. MCI WorldCom's long-distance phone plans lead the list. You can call MCI, negotiate the best rates for long-distance service, and, at the end, give your frequent-flier number.

to pay more for
credit cards, the
source of miles in the
for the airlines. If you
good credit rating,
get a basic card with
fee and a fixed rate
or less. If you want
you'll have to pay
fee and higher



Before you accept an offer's "free" miles, figure out how much they really cost

MCI gives you five miles for every dollar spent, and at least 2,000 miles for signing up. MCI

is affiliated with every major carrier except Trans World Airlines, which has a similar deal with Sprint.

WEB STRATEGIES. One of the fastest-growing ways to earn miles is to shop on the Internet. American, among others, now awards 1,000 bonus miles if you buy a ticket on its Web site (www.aa.com). Just be sure you've checked a price-comparison service such as ltravel.com (www.ltravel.com) to confirm that you're paying a good price for the seat. Another painless way

These cards can make sense if you charge a lot and carry no balance. If you go this route, look for special offers. Diners Club charges \$60 for a card that awards 12,000 bonus miles in the first year. Diners also lets you apply miles to any major airline, so you can top off accounts that are close to a free ticket or have miles about to expire. For an extra \$25 a year, American Express lets cardholders earn mileage that can be used on many airlines or spent

to investors who want to earn miles. At AMR's American AAdvantage International Equity Mileage fund, the premium is 33 basis points. On an investment of \$10,000, you'd earn 1,000 miles, worth \$10 to \$15, but pay \$33 in extra fees. Other AMR funds charge smaller premiums, and a couple carry none at all.

Many hotel chains make you spend more than you should to receive miles. Hilton won't award miles to guests

s Airways' version, by NationsBank, costs a year and has a rate of 17.65% currently. The average American household with an annual income of \$50,000 charges \$700 a year on a credit card and has a balance of \$2,800, according to Auriemma Consulting Group, a Westbury, N.Y., firm that tracks credit card use. With a US Airways card, at would yield 11,000 miles in the first year—the bonus of 2,500 miles

to earn miles is by buying online at Clickrewards (www.clickrewards.com), whose partners include Barnes & Noble. Of course, you can always use the old-fashioned method: Fly. Make sure you keep your boarding pass until you see the flight credited to your account.

Once you earn your miles, you've got to figure out how to spend them wisely. Fortunately, the Internet has made this task easier. Make a list of the trips you're interested in taking over the next couple of years. Then

head to a Net booking service to see how much they'll cost. You might decide to spend \$500 for a ticket to London and save your miles for next year's \$1,000 trip to Tokyo.

NO THANKS. Meanwhile, don't be tempted by airline offers to sell you a ticket for a combination of miles and money. The deals are usually terrible. Every week, American sends E-mail to 1.8 million subscribers, offering last-minute specials for the coming weekend. You can buy a ticket outright or combine

\$39 with 6,000 to 13,000 miles to get a seat. These deals value your miles at half to nine-tenths of a cent each. Continental and TWA have similar deals, with only slightly better terms. Save your miles and buy the tickets in cash.

There's one way to spend miles and be sure you're getting good value: Buy first-class tickets or upgrades, which can make miles worth about 8¢ apiece. It's not a common way to redeem miles, though, because most people prefer getting two

coach trips to one first-class journey. And travelers truly care about sitting in front of the cabin crew. They fly so often they're flying free upgrade coupons.

Whether you use miles for a bunch of trips to visit family or vacation in Thailand, or if it's the same for every trip, spending 2¢ for something worth a penny is not a deal—and it certainly doesn't fit the definition of a frequent-flier game. Have fun playing the game—buy tickets cautiously. *David Lee*



IMPROVED: Northwest will adopt Continental's no-expiration deal

THE AIRLINES' NEW BUDDY SYSTEMS

American and US Airways. Delta and United. Now, Continental and Northwest.

Marketing alliances are becoming a way of life in the airline business—and that's generally good news if you're in one of the carriers' frequent-flier programs.

But not all frequent-flier pairings are equal. When members of United's Mileage Plus and Delta's SkyMiles programs take to the skies, they can assign miles to either account or redeem awards on either carrier. They cannot pool miles, however: Having 30,000 miles in a United account and 30,000 on Delta doesn't qualify you for

a 60,000-mile award. Plus, you can't put your miles into the other carrier's account for international flights. As part of the Star Alliance, United members can earn miles on SAS, Lufthansa, and certain other overseas flights. The miles are worthless on Delta.

When you make a reservation on one of the alliance carriers, you should usually credit it a flight to the account where you have more miles. This gives you a greater range of future options—such

as free international tickets or seats for the whole family. The exception: when you're close to achieving elite status on the carrier with which you have fewer miles. But miles accrued on one airline may not qualify for elite rewards on the other, making it harder to earn first-class

upgrades and other perks. You also may not receive credit in one airline's account for flying on the partner's commuter lines.

United Express miles, for example, can't be assigned to your Delta account.

FINE PRINT. American-US Airways follows a different course. If you belong to both programs, you can combine miles to earn an award. In one case, you can actually earn miles on both airlines simultaneously. Through Sept. 30, passengers who use the US Airways Shuttle between New York and Boston or Washington can earn 500 miles in the American Advantage and US Airways Dividend Miles plans. As with

the Delta-United alliance, miles on one won't earn elite status on the other.

Starting on March 1, you won't be the case in the Continental-Northwest alliance. The lines won't let you combine miles, but both will earn miles and awards on the other. After Feb. 1, you'll be able to book free tickets as few as 20,000 miles, though you can't fly June through August. In addition, Northwest is being deadlines for combining miles, matching Continental's program.

But a frequent flier who wants to go? Laurie R. editor of *Consumer Travel Letter*, is concerned that "airlines are beating chests about how many you can now earn. But it comes to redeeming, they're very quiet." In addition, for the most seats becomes more difficult because, for example, ways frequent fliers don't before have the chance to get to Hawaii on miles now try to do so on cash. So figure out where miles go farthest, and early. *Edward*

YOUR MONEY

TRAVEL

Perks of Pairings

ALLIANCE

AMERICAN-US AIRWAYS

DELTA-UNITED

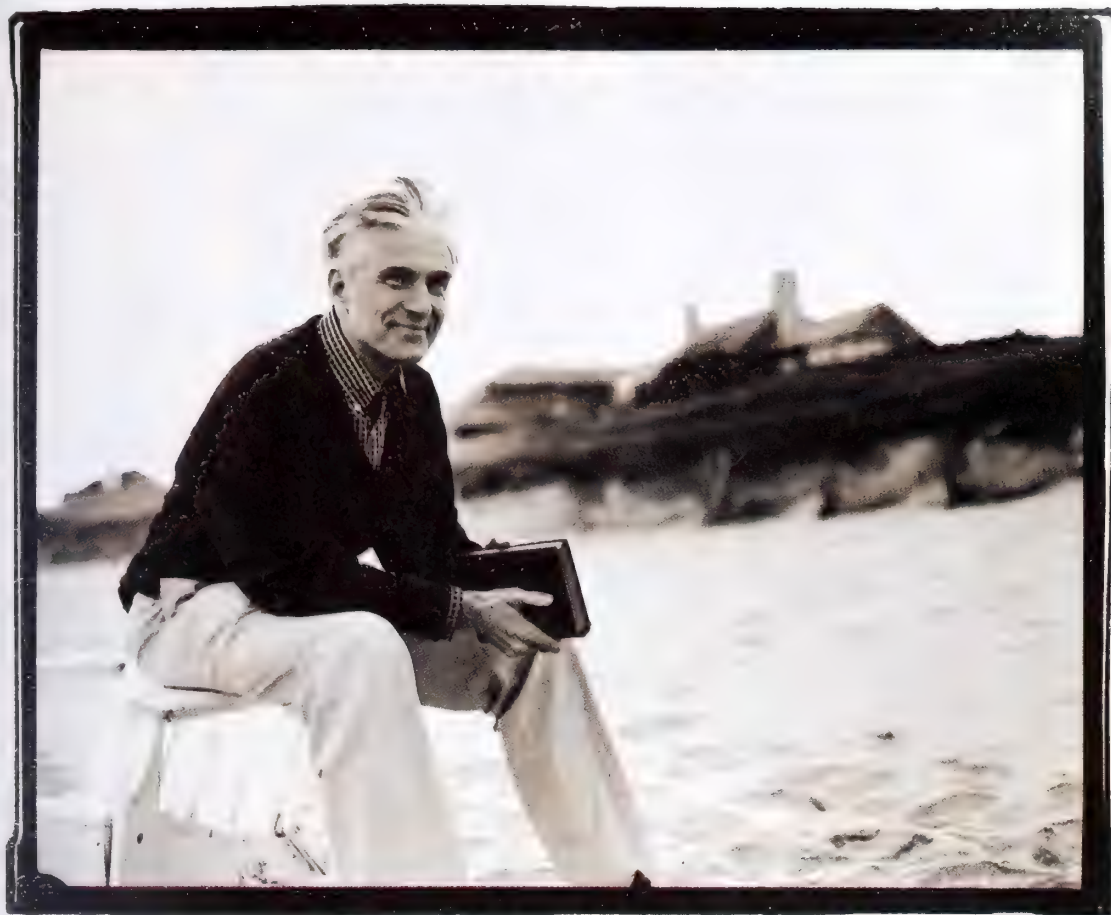
CONTINENTAL-NORTHWEST

BEST FEATURE

Pool miles from both plans to earn an award

Accrue miles on one airline, get reward on the other

Miles from one carrier earn elite status on the other



*Go confidently in the direction of your dreams.
Live the life you've imagined.*

—Henry David Thoreau

What do you want out of life? What do you imagine it to be? Does it scare you? Or fill you with promise and anticipation? At American General, 50,000 dedicated women and men help you meet your financial needs with retirement services, life insurance, and consumer loans. And with 70 years' experience and \$100 billion in assets, we're helping over 12 million people live the life they've imagined.

Live the life you've imagined.

**AMERICAN
GENERAL**
FINANCIAL GROUP



WITH INDEX FUNDS, WHO NEEDS GURUS?

Before mailing your yearend bonus to a mutual fund run by one of last year's gurus, consider this: Over the past five years, fewer than 5% of all stock-fund managers have beaten the Standard & Poor's 500-stock index.

If that's not enough of an argument for investing in funds that mechanically replicate the blue-chip index, here's another: Over time, index funds tend to outshine 55% of their actively managed rivals, according to Vanguard Group, the nation's biggest manager of index funds. The trend has held true this decade, notes Morningstar. What's more, if you

compound index funds' returns over 10 years, they surpass about 80% of their actively managed peers, says Vanguard. "Indexing is not a short-term strategy," notes Vanguard Managing Director Gus Sauter.

Since 1994, funds tracking the S&P 500 have outpaced far more than 55% of their large-cap rivals. In 1998, they beat 73%, compared with 88% in 1997 and 78% in '96. One reason is that the bull market has rewarded index funds for putting every dime to work in stocks, while penalizing managers who hold cash in reserve. Another is that large-cap managers frequently add a few small and midsize names to their port-

folios. Those sectors, which have minimal representation in S&P 500 funds, have lagged. Finally, because the S&P 500 is weighted according to market value, it allows rising stocks such as Microsoft to take up an expanding proportion of the index. Many active money managers trim back on winners for fear of becoming overexposed to a single stock.

If the tide turns against big stocks, stock-pickers might have their day again if they can achieve superior performance elsewhere. In that case, the Russell 2000 index of small-company stocks might become the bogey to beat. But in the four years since 1988 that small stocks have fared better than large, managers failed to keep up with the Russell in every year but one.

How has a simple no-brainer approach outmaneuvered some of the best minds

on Wall Street? Mainly offering a cheap way to invest. In theory, an index fund reflects the entire stock market should beat half the funds and trail the rest when performance is adjusted for fees, index funds beat overachievers. While the average fund pockets 1.4% assets to pay for research, marketing, and management salaries, the typical index fund is a lean operation that takes just 0.56%. And the largest U.S. index fund, the Vanguard Index 500, with assets of \$69.5 billion, has a expense ratio of just 0.1%. **CHURN-FREE.** Brokerage and other trading costs shave most one more percentage point from returns generated by active managers. To replace an average of 1% of the stocks they own each year, Vanguard says, index funds, on the other hand, hold on to stocks until they are kicked out of the index. That was the case recently with Standard & Poor's (labeled **NESS WEEK**, a unit of The McGraw-Hill Companies) that tutored Safeway, a supermarket chain, and Chrysler, which merged with Germany's Daimler-Benz, therefore became a company.

With annual portfolio turnover rates averaging 21%, index funds also generate fewer capital-gains tax contributions on which investors must pay taxes. As a result, almost all index gains taxes are deferred until you cash out.

That's not to say index managers can't add value. Small stocks have outperformed managers have beaten the Russell 2000 by moving a few larger stocks. Other funds have outperformed the Morgan Stanley International EAFE index.

YOUR MONEY
INVESTING

If you compound index funds' returns over 10 years they beat 80% of their actively managed peers

AOL @Work?

easy to enjoy the same AOL benefits
I get at home, at work.

as easy as 1-2-3...

Step 1:

the Internet using your local Internet
provider or by using the Local Area Network
Internet Connection at work.

Step 2:

ar AOL software.* Before signing-on to AOL,
t need to reconfigure your AOL connection
irect via TCP/IP. Here's how:
gn-on screen, click "Setup."
reate a location for use with new access
umbers or an ISP option and click "Next."
dd Location" window, type a name for the
(for example, TCP/IP location).
dd a custom connection (for example
and click "Next." A TCP/IP location will
d automatically.

Step 3:

Sign-on to America Online. If you are already an AOL member, use your existing screen name and password and sign on as normal. If you are not an AOL member, you can download the current software through our Web site at www.aol.com or call 1-800-4-ONLINE to get software delivered to you.

AOL also offers a special pricing plan for customers who use AOL exclusively via TCP/IP. The **Bring Your Own Access Plan** is just \$9.95 per month for unlimited use of America Online.**

Next time you're looking for the best of the Internet and more at work, check out AOL.

* If you are not an AOL member, you can download the current software through our Web site at www.aol.com or call 1-800-4-ONLINE to get software delivered to you

** Additional charges apply if you do not connect through TCP/IP
Go to AOL **Keyword: Billing** to switch to this plan

© 1998 America Online, Inc



To receive FREE
AOL software, call
1-800-4-ONLINE.



*So easy to use,
no wonder it's #1*

Europe, Asia, and the Far East) by shunning Japan. But while such maneuvers shield investors from the worst of a bear market, they can prevent them from getting in on the ground floor of a rally. Errant managers may also expose investors to more of a particular asset class than might be desirable. "Your overall asset allocation is more reliable with index funds," says Rex Sinquefeld, co-chairman of Dimensional Fund Advisors, an index-fund group.

SMART CHOICES. Although index funds are passively managed, the indexes aren't on autopilot. Take the S&P 500. A committee periodically replaces companies that are fading or acquired with up-and-comers deemed more representative of the economy. A recent example: the substitution of Internet dynamo America Online for struggling retailer Venator.

Indexing has the overwhelming support of acade-

Why Indexing Works

PERFORMANCE The average Standard & Poor's 500-stock index fund returned about 18% annually over the past 10 years, vs. about 16% for the average equity fund.

COST Vanguard Index 500 Fund charges 0.18% of assets to cover expenses, vs. 1.45% for the average equity fund.

LOW TURNOVER Index funds don't trade a lot, so they have low transaction costs and minimal capital-gains distributions.

MANAGEMENT To determine the S&P 500, a committee periodically replaces fading companies with up-and-comers deemed more representative of the overall economy.

DIVERSIFICATION Indexes contain hundreds of stocks, so they benefit when investors get bullish on an industry or mergers occur.

DATA: MORNINGSTAR INC., BUSINESS WEEK

mics, who believe the market is so sophisticated that stock prices instantly reflect new information. In this environment, an investor not trading on illegal information has no advantage over others. With the odds of being right at 50% in every transaction, picking stocks that beat the benchmark is no different from correctly calling a coin toss, contends Morningstar research director John

Rekenthaler. Accordingly, over time, active managers tend to earn a market return—minus management fees and transaction costs. Outside academe, this argument is still underappreciated. At the end of the third quarter, nearly 17% of the money flowing into mutual funds was earmarked for index funds. That's up from 3.7% in 1990, but is still only enough to give the category 6% of the market, according to Financial Research, a fund-consulting firm in Boston. Why isn't the concept more popular? Many investors can't resist the temptation to look for the next Peter Lynch. And David Kliff, president of Personal Financial Advisors in Buffalo Grove, Ill., observes that "there is nothing wrong with putting some money into a conservative fund that may capture 90% of an index' gain with less of its risk. That's a fair tradeoff." Kliff also argues

that funds run by stockers offer more protection in bear markets.

Still, there is no evidence that managers have been able to anticipate trouble. After August's sell-off, the average fund had only 5% assets in cash. That's less than the 7.1% held, on average, at yearend over the five years, Morningstar says. Past corrections provide ammunition for both sides: a few minor exceptions, but index funds held up better than their peers as the market plunged in August. But in previous downturns, including the 1987 crash, the situation was reversed.

WASTED ENERGY. In the cap and international markets, financial planner Evensky believes, it's a waste for money managers to try to outperform the index. "There's a difference because analysts cover those markets," he says. But when it comes to U.S. stocks, he suggests investors stick to index funds. "We like to think that one with great ideas, and technology can beat the system," Evensky says. "We kept looking at the active managers compared to the index, and the answer was, generally, very well." Anne T.

SLICING AND DICING THE S&P 500

Just as you can get a Big Mac without special sauce and a Coke with no sugar, you can buy the Standard & Poor's 500-stock index without McDonald's and Coca-Cola. Investors who want exposure to individual segments of the S&P can now choose among nine open-end index funds that track industry groups.

Like sector mutual funds,

the new Select Sector SPDR funds, launched in December, let you bet on parts of the economy, from technology to utilities. They're modeled after Standard & Poor's Depository Receipts, unit trusts that track the entire S&P 500 and trade on the American Stock Exchange. Among the new SPDRs, which are also listed on the Amex, the tech offering contains 79 stocks from the S&P 500, including Microsoft. Because Select Sec-



tor SPDRs are pegged to an index, they have lower operating costs than industry-specific mutual funds. Their expense ratios are 0.65%, vs. 1.86% for the average industry fund, Morningstar says.

You can trade SPDRs

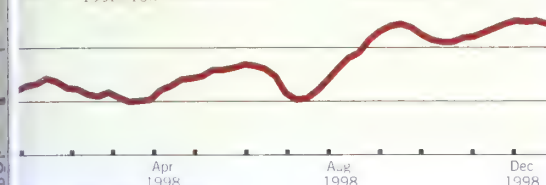
throughout the day, while mutual-fund prices are determined only at the close of trading. And unlike mutual funds, SPDRs can be sold short. So if you're index investing but think that tech stocks are too hot, you could construct a customized S&P index by buying an S&P 500 fund and selling the tech fund short. Or you could buy an S&P 500 fund overweight in certain sectors by buying industry SPDRs along with the basic index fund. Remember: SPDRs are subject to brokerage commissions. For prospectuses and other info, call 800-AMEX or go to www.amex.com. Anne T.

PRODUCTION INDEX

Change from last week: 0.1%
Change from last year: 5.0%

PRODUCTION INDEX

Dec. 26, 142.3
1992=100



Index is a 4-week moving average

The production index was down in the week ended Dec. 26. Before calculation of the 4-week moving average, the index also fell, to 141.8 from 142.9 in the previous week. After seasonal adjustment, output of coal, lumber, and rail traffic were down—mostly due to the typical holiday week volatility and use of lumber, weather problems in the Pacific Northwest. Output of autos, trucks, electric power, and crude oil increased.

Source: Bureau of Economic Analysis, The McGraw-Hill Companies

FINANCIAL INDICATORS

	LATEST WEEK	WEEK AGO	YEARLY % CHG
RICES (12/31) S&P 500	1229.23	1231.93	26.1
10-YEAR BOND YIELD, Aaa (12/31)	6.23%	6.37%	-7.0
M2 SUPPLY, M2 (12/21) billions	\$4,425.1	\$4,406.4	9.3
UNEMPLOYMENT (12/25) thous	368	289	16.5
NEW APPLICATIONS, PURCHASE (1/1)	249.0	279.8	6.4
NEW APPLICATIONS, REFINANCE (1/1)	1,468.5	1,441.3	51.0

Standard & Poor's, Moody's, Federal Reserve, Labor Dept., Mortgage News (Index: March 16, 1990=100)

INTEREST RATES

	LATEST WEEK	WEEK AGO	YEAR AGO
FUNDS (1/5)	4.54%	4.88%	5.35%
GOVERNMENT PAPER (1/5) 3-month	4.80	5.03	5.51
RATES OF DEPOSIT (1/6) 3-month	4.93	5.20	5.58
HYPOTHECAIRY (1/1) 30-year	6.99	6.91	7.26
FIXED RATE MORTGAGE (1/1) one-year	5.75	5.73	5.75
1)	7.75	7.75	8.50

Federal Reserve, HSH Associates, Bloomberg Financial Markets

1=Western Wood Products Assn. 2=Southern Forest Products Assn. 3=Free market value NA=Not available r=revised NM=Not meaningful

THE WEEK AHEAD

CONSUMER PRICE INDEX

Friday, Jan. 13, 8:30 a.m. EST ▶ Process of finished goods were probably unchanged in December from their November level, according to the median of economists surveyed by Standard & Poor's MMS, a division of The McGraw-Hill Companies. Excluding volatile energy costs, core prices likely rose by 0.2%. In November, cheaper total producer prices to fall while core prices rose 0.1%.

CONSUMER PRICE INDEX

Jan. 14, 8:30 a.m. EST ▶ Concessions for all goods and services likely edged 0.2%, while core prices, which

exclude food and energy, probably rose 0.3% in December. If so, overall consumer inflation finished 1998 just under 1.7%, the smallest gain in 12 years. In November, the total CPI and the core index each rose a modest 0.2%.

RETAIL SALES

Thursday, Jan. 14, 8:30 a.m. EST ▶ The S&P MMS survey forecasts a 0.4% gain in retail sales in December, following an unexpectedly large 0.6% jump in November. Excluding motor-vehicle sales, store receipts probably increased 0.3%, on top of a 0.4% gain in November. Retailers have characterized the 1998 holiday as good, but not spectacular.

PRODUCTION INDICATORS

	LATEST WEEK	WEEK AGO	YEARLY % CHG
STEEL (1/2) thous. of net tons	1,784	1,838	-20.4
AUTOS (1/2) units	0	70,442	NM
TRUCKS (1/2) units	0	87,361	NM
ELECTRIC POWER (1/2) millions of kilowatt-hrs.	64,171	65,747	3.6
CRUDE-OIL REFINING (1/2) thous. of bbl./day	15,350	14,927	3.3
COAL (12/26) thous. of net tons	15,104	22,580	-11.5
LUMBER (12/26) millions of ft.	245.8	489.4	-14.9
RAIL FREIGHT (12/26) billions of ton-miles	19.2	28.0	-5.4

Sources: American Iron & Steel Institute, Ward's Automotive Reports, Edison Electric Institute, American Petroleum Institute, Energy Dept., WWP1, SFPA2, Association of American Railroads

PRICES

	LATEST WEEK	WEEK AGO	YEARLY % CHG
GOLD (1/6) \$/troy oz.	287.650	286.950	2.1
STEEL SCRAP (1/5) #1 heavy, \$/ton	84.00	85.50	-41.5
COPPER (1/1) ¢/lb.	69.6	68.6	-13.0
ALUMINUM (1/1) ¢/lb.	60.0	59.5	-18.4
COTTON (1/1) strict low middling 1-1/16 in., ¢/lb.	58.47	59.67	-8.4
OIL (1/5) \$/bbl.	11.85	11.25	-28.8
CRB FOODSTUFFS (1/5) 1967=100	201.63	196.14	-12.7
CRB RAW INDUSTRIALS (1/5) 1967=100	263.47	263.32	-13.3

Sources: London Wednesday final setting, Chicago market, Metals Week, Memphis market, NYMEX, Commodity Research Bureau

FOREIGN EXCHANGE

	LATEST WEEK	WEEK AGO	YEAR AGO
BRAZILIAN REAL (1/6)	1.2089	1.2079	1.1171
BRITISH POUND (1/6)	1.65	1.68	1.63
CANADIAN DOLLAR (1/6)	1.51	1.55	1.43
EUROPEAN EURO (1/6)	1.1602	NA	NA
JAPANESE YEN (1/6)	113.15	115.47	131.63
KOREAN WON (1/6)	1158.5	1209.1	1745.0
MEXICAN PESO (1/6)	9.770	9.870	8.055
TRADE-WEIGHTED DOLLAR INDEX (1/6)	104.6	106.3	111.0

Sources: Major New York banks. Currencies expressed in units per U.S. dollar, except for British pound and European Euro in dollars. Trade-weighted dollar via J.P. Morgan.

BUSINESS INVENTORIES

Friday, Jan. 15, 8:30 a.m. EST ▶ Stockpiles of goods held by manufacturers, wholesalers, and retailers probably grew 0.2% in November, a bit slower than their 0.3% advance in October.

INDUSTRIAL PRODUCTION

Friday, Jan. 15, 9:15 EST ▶ Industrial output at factories, mines, and utilities probably rose a slim 0.1% in December, after dropping 0.3% in November. More seasonably cold weather at the end of December likely boosted energy demand, but factory output remained stagnant. Operating rates probably slipped to 80.5% last month, from 80.6% in November.

This Week, Online

Business Week presents frequent live conferences and chats on America Online—your opportunity to ask questions about timely topics.

BusinessWeek **ONLINE**

Sunday

Hot tips on how to start your own business, with author David H. Bangs Jr., in another chat brought to you by BW Enterprise. Jan. 10 9 p.m. EST

Tuesday

The market and mutual funds: Susan Pevear of S&P Personal Wealth will try to steer you to the best bets for '99. Jan. 12 4:30 p.m. EST

Thursday

Allan Roness of JW Genesis Securities was the champion market forecaster of '98 in BW's survey. Now find out how he sees '99. Jan. 14 9 p.m. EST

AOL keyword: BW Talk

Transcripts of all conferences are available for downloading from the BW Online area on AOL soon after each event.

Index to Companies

This index gives the starting page for a story or feature with a significant reference to a company. Most subsidiaries are indexed under their own names. Companies listed only in tables are not included.

A

Abbott Laboratories (ABT) 98
ABN Amro (AAN) 34
AES 60
Aerial Communications (APT) 38
AirTouch Communications (ATI) 38
All-Tech Investment Group 88
Alpha Equity Research 82
Amazon.com (AMZN) 40, 43, 88, 92
American Airlines (AMR) 104, 105
American Express (AXP) 8, 64
America Online (AOL) 40, 44, 64, 78, 92, 108
AmenServe 64
Amentech (AIT) 102
Amentrade 88
AMG Data Services 82
Amoco (AN) 114
AMR Investments (AMR) 104
Andersen (Arthur) 102
Andersen Consulting 6, 102
Andersen Worldwide 100, 102
Apple Computer (AAPL) 44, 52
Archer Daniels Midland (ADM) 8
AT&T (T) 38, 52, 74
Aunemma Consulting Group 104

B

Baan 62
Bankers Trust (BT) 34
Bank Julius Baer 34
Bank One (ONE) 102, 104
Barnes & Noble (BKS) 104
Bell Atlantic (BEL) 38
BellSouth (BLS) 38
Bernstein (Sanford C.) 38
BizTone.com 64
BMW 34, 46, 114
Boca Research 22
Boeing (BA) 52
Borders (BCP) 64
Boston Consulting Group 40
Bridgestone 56
Bristol-Myers Squibb (BMY) 98
British Petroleum (BP) 114
British Telecommunications (BTY) 38

C

Canon 56
Careerpath 78
CarPoint 78
Carrefour 60
CBS (CBS) 18, 74
CDWarehouse 64
Chase Manhattan Bank (CMB) 92
Cisco Systems (CSCO) 52, 86
Citigroup (C) 43, 60, 64
Classified Ventures 78
CNBC (GE) 92
Coca-Cola (KO) 110
Colgate-Palmolive (CL) 64
Compaq Computer (CPQ) 22, 64
Conde Nast 74
Continental Airlines (CAI) 104, 106
Convergys 64
Cougar Mountain Software 97

D

DaimlerChrysler (DCX) 34, 46, 64, 108, 114
Dataquest 22
Dell Computer (DELL) 64, 88
Delta Air Lines (DAL) 104, 106
DeSilva & Phillips 94
Deutsche Bank 34
Diamond Multimedia 22
Dixie (AMEN) 92

Digex

64
Dimensional Fund Advisors 108
Diners Club 104
Dodge (FW) (MHP) 31
Dow Jones (DJ) 10
Dresdner 34, 58
DuPont (DD) 100

E

Ebay (EBAY) 43
Eddie Bauer 40
Electricité de France 60
Emersa 60
E*Trade (EGRP) 88
Exodus Communications (EXDS) 64
Exxon (XON) 114

F

Fidelity Investments 46, 82
Financial Research 82, 108
Finova (FNV) 92
First Penn-Pacific Life (LNC) 10
Food Lion (FDLNL) 50
Ford (F) 6, 36, 46, 114
Forrester Research (FORR) 40, 78

G

Gap (GPS) 40
Gartner Group 38, 72
GATX (GMT) 92
General Motors (GM) 6, 34, 46
Genset (GENXY) 98
Gerasul 60
Goldman Sachs 34, 64
GPU 60
Greenhaven Associates 92
GTE (GTE) 38, 64

H

Hershey Foods (HSY) 64
Hewlett-Packard (HP) 52, 64
Honda (HMC) 6, 46, 56
Hughes Electronics (GMH) 55
Hyatt 104

I

IBM (IBM) 8, 64, 97, 100
Incyte Pharmaceuticals (INCY) 98
Infinit 78
Intel (INTC) 52, 64, 86
International Data 64

J

J. Crew 72
JDC 56
J&J (NWS) 80

K

Kellogg (K) 52
Knight Ridder (KRI) 78
Kohlberg Kravis Roberts 8
K-tel (KTEL) 88
Kwong Quest 97

L

Legg Mason Wood Walker 92
Lehman Brothers (LEH) 10, 46
Level 3 Communications 8
LFP 94
Lifetime Television 74
Light 60
Lincoln Financial Group (LNC) 10
Lin Electric 97
Lipper 86
Lojas Americanas 60
Loral (LOR) 55
Lucent Technologies (LU) 64
Lufthansa 106

M

Macy's (FD) 64
Marlen Stamps & Coins 8
Marriott International (MAR) 104
Matsushita Electric Industrial 18
MCA 18
McDonald's (MCD) 110
McGraw-Hill (MHP) 31, 108, 111
MCI WorldCom (WCOM) 38, 52, 102, 104
McKinsey 40
Meredith (MDP) 6
Merrill Lynch (MER) 34, 60, 64, 82, 88
Microsoft (MSFT) 43, 44, 64, 72, 78, 86, 108
Millennium Pharmaceuticals (MLNM) 98
Mobil (MOB) 114
Morgan (J.P.) (JPM) 36, 92
Morgan Stanley Dean Witter (MWD) 34, 56, 60, 108
MORI 36
Morningstar 82, 86, 108, 110
Morton Research 78
Mynad Genetics (MYGN) 98

N

Nanovation Technologies 97
NationsBank (NB) 104
NBA 43
NEC 97
Netscape Communications (NSCP) 64
Network Solutions (NSOL) 52
New Century Networks 78
New England Patriots 10
New York City Off Track Betting 80
New York Times (NYT) 78
News Corp. (NWS) 18, 36, 62, 80
Nextel Communications (NXTL) 38
Nippon Credit Bank 56, 62
Nissan 46, 56, 114
Northern Trust (NTRS) 30
Northwest Airlines (NWA) 106
Novell (NOVL) 64
NXT 97

O

Omnipoint Communications (OMPT) 38
Open Port Technology 8
Oracle (ORCL) 62, 64

P

Paramount Pictures 18
Penney (J.C.) (JCP) 40
PeopleSoft 62
Personal Financial Advisors 108
Pfizer (PFE) 98
Pointcast 78
Potomac Funds 86
PowerTV 64
Priceline.com 43
PricewaterhouseCoopers 102
ProFund Advisors 86
Prudential Securities 52, 92
PSINet (PSIX) 64

Q

Quantum (QNTM) 72
Qwest Communications (QWST) 8

R

Realtor.com 78
REI 64
Renaissance Worldwide 38
Renault 46, 114
Repsol 34
RJM Group 8
RJR Nabisco (RN) 8
Robert Fleming Securities 60
Rolls-Royce 92
Rydex Series Trust 86

S

Safeway (SWY) 108
Sakura Bank 56

Salomon Smith Barney 52
Samsung 52
Sanwa Bank 56
SAP 62, 64
SAS 106
SaveSmart 78
SBC Communication
Schwab (Charles) (S)
Science Applications
Seagram (VO) 18
Securities Data 60
Shaklee 52
Siebert (Muriel) 88
Silicon Graphics (SG)
Singer 60
Sony (SNE) 52, 64
Sportsline USA 78
Sprint (FON) 38, 52
Stampfinder.com 8
Standard & Poor's (N) 111
Stephens 80
Sunbeam (SOC) 10
Sun Microsystems (S) 64
Swissair 92

T

Taco Bell (YUM) 64
Tele-Communications (TCOM) 52, 64, 104
Tesserae 78
Texaco (TX) 52
Texas Instruments (TSCOM) 52
Times Mirror (TMC)
Toyota (TOYOV) 6
Tractebel 60
Tribune (TRB) 78
True North Communications
Tut Systems 22
TWA (TWA) 104

U

United Airlines (UAL)
United Video Satellite
Universal Pictures (U)
US Airways (U) 10
USA Networks (USA)
UUNET 64

V

Vanguard Group 8
Varianetics 98
Venator (Z) 108
Viewtron 78
Virgin Records 18
VNU 6
Vodafone Group (V)
Volkswagen 34, 46
Volvo 34, 46, 114
Vulcan Ventures 4

W

Walt Disney (DIS)
Warburg Dillon Reed
Waste Management
Wiley (John) (JWA)

Y

Yahoo! (YHOO) 64
Yankee Group 38

Z

ZD Market Intelligence
Zip2 78

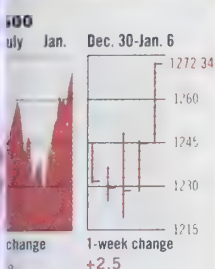
For a free trial diskette including 50 free hours on AOL, call 1-800-641-4848 and mention Business Week.



Executive, Editorial, Circulation, and Advertising Offices: 1221 Avenue of the Americas, New York, N.Y. 10020 U.S. subscriber rate \$54.95/yr. \$69/yr. Periodicals postage paid at New York, N.Y., and at additional mailing offices. Postage paid at Montreal, P.Q. Canada Post International Mail Product Sales Agreement No. 246484 Postmaster: Send address changes to BUSINESS WEEK, P.O. Box 430, Hightstown, NJ 08520.

Investment Figures of the Week

KS



STOCK MARKET

The stock market began the year with a bang. The Dow Jones industrial average rose above 9500 for the first time, rising 234 to close at 12734 on Jan. 6. The rise was led by a flow of cash into stocks from pension funds. The Standard & Poor's 500 and NASDAQ Composite also climbed to new records. The market surged, as signs of growth boosted the U.S. economy against the new euro. The dollar fell against the dollar, fueling speculation that the yen may sell to help

U.S. MARKETS

	Latest	% change Week	% change Year
Dow Jones Industrials	9545.0	2.4	20.8
NASDAQ Combined Composite	2320.9	6.4	48.6
S&P MidCap 400	395.1	5.8	21.3
S&P SmallCap 600	178.5	4.0	0.3
S&P SuperComposite 1500	268.4	2.8	29.7

SECTORS

	Latest	% change Week	% change Year
Bloomberg Information Age	498.3	4.8	69.8
S&P Financials	135.6	2.7	16.8
S&P Utilities	260.4	0.3	14.1
PSE Technology	475.3	6.7	63.5

FOREIGN MARKETS

	Latest	% change Week	% change Year
London (FT-SE 100)	6148.8	3.5	17.7
Frankfurt (DAX)	5443.6	8.2	24.0
Tokyo (NIKKEI 225)	13,468.5	-2.7	-10.4
Hong Kong (Hang Seng)	10,233.8	0.1	7.3
Toronto (TSE 300)	6805.3	5.1	3.3
Mexico City (IPC)	3745.2	-4.4	-24.2

FUNDAMENTALS

	Latest	Week ago	Year ago
S&P 500 Dividend Yield	1.27%	1.28%	1.59%
S&P 500 P/E Ratio (Last 12 mos.)	32.6	31.9	24.6
S&P 500 P/E Ratio (Next 12 mos.)*	24.2	24.0	19.0
First Call Earnings Surprise*	9.99%	0.60%	-4.70%

TECHNICAL INDICATORS

	Latest	Week ago	Reading
S&P 500 200-day average	1106.5	1102.8	Positive
Stocks above 200-day average	41.0%	37.0%	Neutral
Options: Put/call ratio	0.45	0.44	Negative
Insiders: Vickers Sell/buy ratio	1.25	1.14	Positive

Data: Bloomberg Financial Markets; *First Call Corp.

BEST-PERFORMING GROUPS

	Last month%	Last 12 months%
Health-Care Services	26.7	Communications Equip. 124.2
Long-Dist. Telecomms.	25.6	Specialty Appar. Retailers 115.0
Transportation Services	25.5	Genl. Merchandise Chains 84.7
Communications Equip.	23.7	Computer Systems 82.8
Specialty Appar. Retailers	22.6	Computer Software 75.6

WORST-PERFORMING GROUPS

	Last month%	Last 12 months%
Toys	-17.2	Oil & Gas Drilling -49.2
Hospital Management	-8.5	Oil-Well Equip. & Svcs. -30.2
Housewares	-4.9	Metals -24.8
Property-Casual. Insurers	-3.9	Leisure Time -24.3
Tobacco	-3.8	Toys -24.0

BLOOMBERG MONEY FLOW ANALYSIS

Rebound ahead? Stocks with most significant buying on price weakness

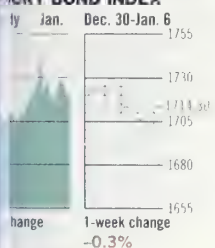
	Price	1-month change
Exxon	72	-1
Mobil	85 15/16	-1 7/16
BankAmerica	61 1/16	-2 1/8
Merck	150 3/4	-6 15/16
Chevron	80 7/8	-1 5/16
Telebras-ADR	77 1/4	-11 1/2

Decline ahead? Stocks with most significant selling on price strength

	Price	1-month change
Cisco Systems	96 15/16	16 3/4
Microsoft	146 1/2	12 15/16
MCI WorldCom	74 15/16	11 1/4
Dell Computer	75 1/4	7 7/8
Sun Microsystems	92 9/16	14 3/4
Intel	123 1/4	4 9/16

INTEREST RATES

TREASURY BOND INDEX



KEY RATES

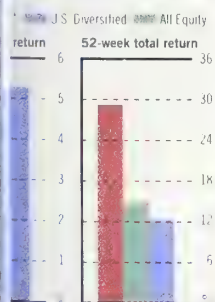
	Latest week%	Week ago%	Year ago%
MONEY MARKET FUNDS	4.75	4.75	5.25
90-DAY TREASURY BILLS	4.44	4.57	5.23
6-MONTH BANK CDS	4.39	4.38	5.20
1-YEAR TREASURY BILLS	4.51	4.61	5.31
10-YEAR TREASURY NOTES	4.71	4.68	5.55
30-YEAR TREASURY BONDS	5.16	5.10	5.80
LONG-TERM AA INDUSTRIALS	6.13	6.11	6.41
LONG-TERM BBB INDUSTRIALS	6.97	6.94	6.74
LONG-TERM AA TELEPHONES	6.43	6.46	6.74

BLOOMBERG MUNI YIELD EQUIVALENTS

Taxable equivalent yields on AAA-rated, tax-exempt municipal bonds, assuming a 31% federal tax rate.

	10-yr. bond Latest week	Last week	30-yr. bond Latest week	Last week
GENERAL OBLIGATIONS	4.16%	4.15%	4.88%	4.87%
PERCENT OF TREASURIES	88.37	88.65	94.54	95.38
TAXABLE EQUIVALENT	6.03	6.01	7.07	7.06
INSURED REVENUE BONDS	4.29	4.30	5.12	5.13
PERCENT OF TREASURIES	91.14	91.85	99.19	100.47
TAXABLE EQUIVALENT	6.22	6.23	7.42	7.43

MUTUAL FUNDS



EQUITY FUNDS

Leaders

Four-week total return	%	Laggards	%
Millennium Growth	39.2	ProFunds UltraShort OTC Inv.	-23.8
ProFunds UltraOTC Investor	28.0	American Heritage	-22.2
Matthews Korea I	27.0	Potomac OTC/Short	-12.1
Amerindo Technology D	24.0	Montgomery Latin Amer. R	-12.0
WM Growth S	21.6	ProFunds UltraBear Inv.	-9.9

Leaders

52-week total return	%	Laggards	%
Internet	202.0	Lexington Troika Russia	-83.3
ProFunds UltraOTC Investor	191.3	American Heritage	-63.2
Matthews Korea I	109.5	Potomac OTC/Short	-54.2
Potomac OTC Plus	107.9	Montgomery Latin Amer. R	-53.4
Dreyfus Technology Growth	99.1	Excelsior Latin America	-48.1

EQUITY FUND CATEGORIES

Leaders

Four-week total return	%	Laggards	%
Communications	12.4	Latin America	-3.1
Technology	11.3	Japan	0.1
Europe	9.9	Real Estate	0.9
Mid-cap Growth	8.8	Pacific/Asia ex-Japan	1.1
Large-cap Growth	8.4	Natural Resources	1.6

Leaders

52-week total return	%	Laggards	%
Technology	48.2	Latin America	-39.8
Communications	46.5	Diversified Emerging Mkts.	-25.3
Large-cap Growth	35.9	Natural Resources	-22.4
Large-cap Blend	22.5	Real Estate	-14.8
Europe	21.3	Precious Metals	-8.1

of market close Wednesday, Jan. 6, 1999, unless otherwise indicated. Industry groups of 500 companies only. Fundamentals, technical indicators, Bloomberg money flow analysis, and mutual fund returns are as of Jan. 5. For a more detailed explanation, write to us or E-mail figures@businessweek.com. NA=Not available **Vanguard Index 500 Fund

WHAT THE EURO MEANS

The dramatic debut of the euro comes as something of a shock to many American academics, policymakers, and pundits, who have tended to view Europe's effort to create a single currency skeptically, if not scornfully. Yet the smooth launch, initial strength, and intense investor interest in euro-denominated securities are a clear wake-up call. The euro is changing the financial and economic playing field. Those who underestimate its impact and the potential problems it could pose to the U.S. may find themselves in the company of those who said the euro would never see the light of day.

What does the euro mean for the U.S.? Start with capital markets. BE, or Before the Euro, European companies financed their growth mainly by borrowing from banks, rather than issuing stock or bonds. Thus, its securities markets were small and underdeveloped; the total value of equities equaled about 40% of gross domestic product, vs. 130% for the U.S. But the euro will unify Europe's stock and bond markets and Americanize its financial practices. Enormous sums of portfolio investments will shift out of 11 narrow national markets into a single, euro-denominated one. As it grows, global investors will seek out euro stocks and bonds as a safe haven and good investment for their cash. Liquid capital markets could attract a tidal wave of international money—pulling some of it away from the U.S. Much of America's investment boom in recent years came from foreign financing. Now, there will be greater competition for global capital.

The dollar could trend down for some time. Up to 30% of all world trade will soon be denominated in euros. This could encourage central bankers to put a similar proportion of their reserves in the new currency. To do so, they will have to sell dollars. There's no way around it.

Those who believe that the dollar will continue its total dominance are dreaming. The euro will almost certainly become

a reserve currency. It may take 5 or 10 years, but our guess is 2 or 3. The euro will join the dollar as a *numeraire* against which other currencies are measured and in which other monies are held. And it is by no means assured that the euro will be junior to the dollar in the long run (page 3).

That depends on Washington policy. The U.S. has been running large trade deficits for decades. With Asia dumping, America's current account deficit could hit 4% in 1999. Before the euro, the U.S. could finance this cheaply, because overseas trading partners were willing to hold dollars or dollar-denominated debt. They didn't have much choice.

Now, they do. The U.S. may have to raise interest rates to entice foreign investors to buy Treasury bonds or corporate paper. Long-term rates have already started to rise. A weaker dollar could drive them higher by yearend, surprising markets.

The good news is that a lower dollar translates into higher exports and higher repatriated earnings from abroad. The dollar strengthened from 1995 to 1998, hurting top-line growth. This year, a weaker dollar could add 2% to 3% to earnings growth. The euro will also smooth transnational mergers between European and U.S. companies and improve operating efficiencies inside Europe. All this is good for corporate performance and economic growth.

The bad news is that the U.S. can no longer play "the sumo of last resort" and absorb imports from Asia without limit. The deficits with China and Japan may finally be reaching intolerable levels. Indeed, the dollar increasingly looks like the big financial question mark for 1999. Already weak against the yen, a supereuro that soars by 20% could trigger a crisis. It probably won't happen, but it could. America can no longer take its dollar for granted. The euro has arrived.

MERGERS ARE NO MENACE

Merger mania hit a new peak in 1998, with \$2.5 trillion worth of deals announced worldwide. This year promises to be even hotter. There are all kinds of reasons why companies merge, but one underlying macroeconomic force driving the phenomenon is glut. After a decade of huge capital investments in Asia, the U.S., and elsewhere, supply outpaces demand nearly everywhere. This is sending prices lower, eroding corporate profits, and increasing layoffs. Mergers, especially among big, like-size companies, are the market's way of reducing supply. Antitrust policy must focus on maintaining competition. But with the global economy facing a deflationary spiral, leeway should be given to some mergers that cut back overcapacity.

Oversupply is sending oil prices lower, leading Exxon to hook up with Mobil and British Petroleum with Amoco.

There are perhaps 5 million cars' worth of overcapacity in the world auto industry. The Daimler-Chrysler merger is a binger. At the Detroit Auto Show, there was talk of Ford DaimlerChrysler linking up with Nissan, Renault, and BMW—take your pick. In Asia, chip factories are being idled, and others are being sold to American and European companies. A vast consolidation is under way.

Glut is a two-sided beast. It pushes inflation lower, which is fine, since it ups real wages and income. But falling prices mean falling profits and unemployment. Layoffs are at record levels in America as companies strive to rebuild their margins. So far, people have been able to get jobs, and the economy has rolled along. But deflation can be dangerous. Mergers are one of the ways free markets deal with overcapacity and deflation.

THERE'S AN EMERGENCY BOARD MEETING. THE CFO NEEDS NUMBERS BY NOON!

*You Need Them
Fast
You Need Them
Right
You Need*
CFO Vision™



When you're under pressure to make timely business decisions, CFO Vision software delivers the financial and accounting information you need.

CFO Vision is the only comprehensive solution for business information management and financial reporting. It provides a single source for all financial data, including accounts payable and receivable, general ledger, and more. It also provides a secure, multi-user environment for the financial data, ensuring that all key performance indicators are up-to-date.

CFO Vision is the only solution that integrates all of your financial data into a single, unified system. It provides a single source for all financial data, including accounts payable and receivable, general ledger, and more. It also provides a secure, multi-user environment for the financial data, ensuring that all key performance indicators are up-to-date.

For more information, visit our website at www.sas.com/cfo.



SAS Institute Inc.

One SAS Campus Drive, Cary, NC 27513

E-mail: bw@sas.com

www.sas.com/cfo

919.677.8200

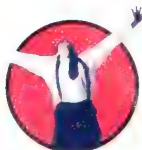
In Canada 1.800.363.8397

SAS and the SAS logo are registered trademarks of SAS Institute Inc. in the USA and other countries. © SAS Institute Inc. 2000. All rights reserved.

Presenting our latest of
Ladies and gentlemen,

the

Interactive online billing. Sort. Tr



You're never going to look at your phone bill quite the same way again. Introducing our online system, e•magine.™ Now you can access your account in ways you never before thought possible through your Internet browser. Sort and analyze calls by account code, length of call, originating and terminating number, almost any way you want. Download the data for your own use. Even pay your bill

ary 26



3 9042 04589601 3

BusinessWeek

25, 1999

A PUBLICATION OF THE MCGRAW-HILL COMPANIES

\$3.95

arts
keting

Yikes!
Mike
takes a
hike

rosoft



oal
kets

Another
crisis—
or no
big deal?

&T

its
minute



THE **COUP** AT GOLDMAN



IN
Henry Paulson



IN
John Thornton



IN
John Thain

A troika of
investment
bankers has
unseated

the trader who led the firm.
Here's how it happened—
and what it means for
Goldman Sachs.

PAGE B4



OUT
Jon Corzine

BURLINGAME PUBLIC LIBRARY
480 PRIMROSE RD
BURLINGAME CA 94010-4010

BURLINGAME
JAN 15 1999
LIBRARY

*****CART-SORT**
#0602 1058111600#JAN00 14L
C030 0189

This is easier said than done. Today the fight against pathogens of bacterial infections has become a serious threat again. Because of their enormous adaptability, they have built up resistance to many formerly effective antibiotics. The scientists at our pharmaceutical company Hoechst Marion Roussel develop new medicines and alter the structures of existing ones to set up effective agents against pathogens. So disease-causing bacteria will not have anything to laugh about in the future.

Imagine laughter being the only thing that's contagious



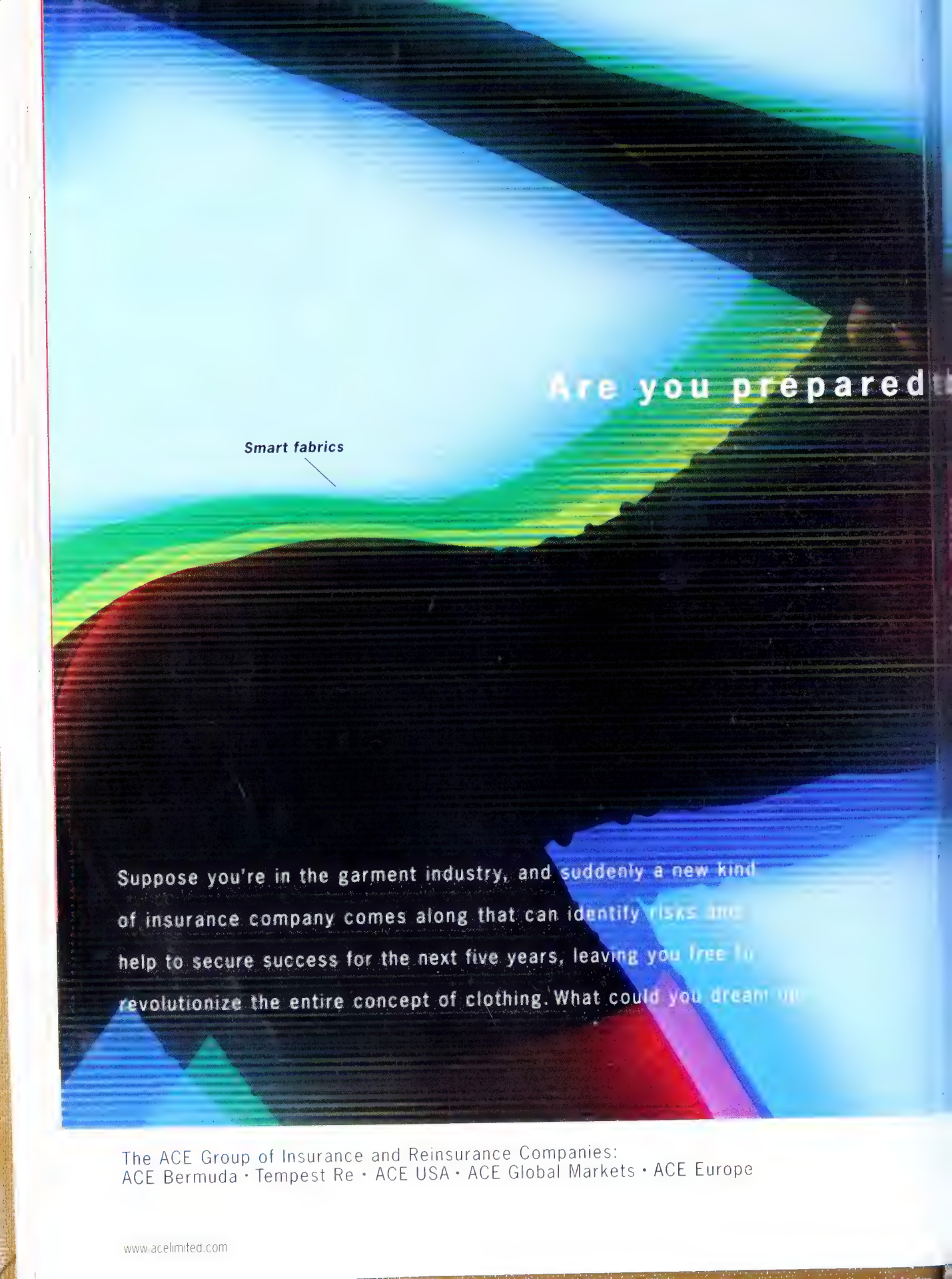
R 12/51 BW

Hoechst Marion Roussel is the pharmaceutical company of Hoechst, an international group of

The Future in Life Sciences

Hoechst



The background of the advertisement is an abstract composition of overlapping, semi-transparent geometric shapes in shades of blue, green, yellow, and red. These shapes create a sense of depth and movement. Overlaid on this colorful background is a dark, high-contrast silhouette of a person, possibly a woman, wearing a garment that appears to be made of a smart fabric, as indicated by the text. The person's form is mostly black, with some highlights suggesting the texture of the fabric.

Are you prepared

Smart fabrics

Suppose you're in the garment industry, and suddenly a new kind of insurance company comes along that can identify risks and help to secure success for the next five years, leaving you free to revolutionize the entire concept of clothing. What could you dream up?

The ACE Group of Insurance and Reinsurance Companies:
ACE Bermuda • Tempest Re • ACE USA • ACE Global Markets • ACE Europe



business in the future



Setting your future free™

ace group

COVER STORY

THE COUP AT GOLDMAN

The intrigue that cost co-chief Jon Corzine his prestigious post

BusinessWeek

JANUARY 25, 1999



GREAT RACE

Who will still be running after all the mergers? page 68



Cover Story

84 INSIDE THE COUP AT GOLDMAN

The tale of how Jon Corzine, co-chief of the fabled investment house Goldman Sachs, was toppled from one of Wall Street's most powerful perches is an intricate one. From ingrained trader-banker rivalries to the Long-Term Capital debacle, the stage was set for a showdown over Corzine's stewardship. But the turmoil at Goldman over going public may finally have sealed his fate.

86 THE RISE OF JOHN THORNTON

Goldman's new co-chief operating officer has been its dealmaking mastermind.

88 WHAT PRICE GOLDMAN?

The price of the investment house's stock

News, Analysis & Commentary

36 THAT FRAGILE RECOVERY

The markets' relatively calm reaction to Brazil's devaluation shows how far investor confidence has solidified.

38 BRAZIL: THE GENIE IS OUT

With the real devalued, the government must move fast to avoid a meltdown.

39 COMMENTARY: THE ECONOMY

How high tech supports the record production expansion.

40 CLIFFHANGER IN NET STOCKS

A couple of price plunges have some wondering if the bubble will burst soon.

41 A MERGER STORY FOR THE DIGEST

It may unite with parts of Time Warner to create a direct marketing giant.

42 ARE YOU INSURED FOR Y2K?

Don't count on it. Insurers are fighting to avoid the paying the bill for the bug.

45 CALL ME AL, BUSINESS' PAL

Can the Veep win over Corporate America before 2000?

46 COMMENTARY: HMOs

Drug-price inflation is outlandish, and HMOs can't afford to carry the entire burden themselves.

48 CAMPBELL'S WET NOODLE

The food company's numbers are tepid, despite CEO Morrison's efforts.

48 LUCENT CLICKS WITH ASCEND

Can the new partnership challenge Cisco in networking?

49 IN BUSINESS THIS WEEK

International Business

54 SOUTH KOREA

The recovery under way, but also plenty of growth, but also and turmoil for the middle class.

56 GLOBAL STRATEGIES

Vodafone's bid for AirTel, a step in a plan for worldwide expansion.

60 COMMENTARY: THE EC

It's time to tackle corruption.

64 BRITAIN

Consumers are beginning to resist against price-gouging retailers.

65 INTERNATIONAL OUTLOOK

Desert Fox has Saddam Hussein backed into a corner.

Economic Analysis

28 ECONOMIC VIEWPOINT

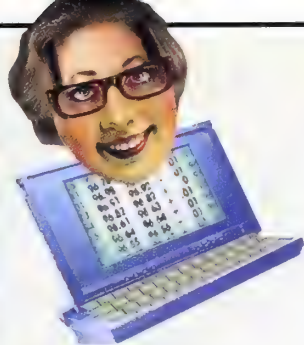
Garten: The danger of meltdowns.

32 ECONOMIC TRENDS

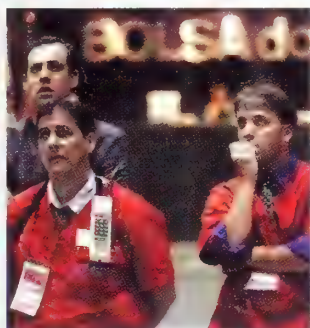
Pros and cons, reading the tea leaves, what's crimping Asia's recovery?

33 BUSINESS OUTLOOK

There's something screwy about strong labor stats.



NET MARKETS
New products help
futures trading go
online page 112



BRAZIL BLUES
The real is devalued,
and markets don't
tumble page 36

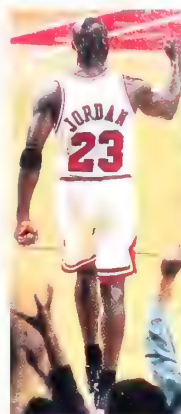


KEEPING SCORE
Halfway through the
trial, Microsoft is
unbowed—and not
very bloody page 78

OVERACHIEVER
Mike Armstrong set
big goals
for
AT&T—
then he
topped
them
page 94



**LIFE WITHOUT
MICHAEL**
Jordan's
exit
shakes
the
world of
sports
business
page 74



OPEN SEASON?
A lawsuit claims
headhunters aren't
playing fair page 106

Government

WASHINGTON OUTLOOK

House 2000: You want outsiders?
outsiders

DO CROSS'S WONDER WOMAN?

What Liddy Dole would have you
but...

Stories

WHO'S NEXT?

Big six carmakers profit from
economies of scale, they will likely
swamp inefficient parochial players

Business

MIKE TAKES A HIKE

His retirement leaves everyone
guessing: The NBA, TV networks, the
advertisers and the companies that made him
the man marketing machine

DUNK FOR RANDOM HOUSE?

Do Michael Jordan bios are
fully timed

ENTERTAINMENT: MICHAEL JORDAN

At athlete, yes—but also a great
man for Mad Ave

Legal Affairs

78 MICROSOFT: THE VIEW AT HALFTIME

Justice has proved a few major points,
but a rout of the company is unlikely

Information Technology

24 TECHNOLOGY & YOU

Battle of the lightweights: Jornada vs.
Portégé

94 AT&T'S PROMISE KEEPER

So far, CEO Mike Armstrong has been as
good as his word—or better—and
investors are delighted

Science & Technology

98 THE SHAPE OF ROBOTS TO COME?

Software developer Joseph Michael
envisioning tiny and not-so-tiny
cubelike automated work units

105 DEVELOPMENTS TO WATCH

Progress in AIDS research, energy from
the moon, a needle-less glucose monitor
for diabetics

The Corporation

106 DRAWING A BEAD ON HEADHUNTERS

Federated is suing the search company
that lured away one of its top execs

107 RED INK AT ZIFF-DAVIS

Web-site hoopla isn't helping much

Personal Business

112 INVESTING: Trading futures on the Net

IRAs: Why the Roth needs a revamp

ELECTRONICS: A pause button for TV

HEALTH: Hope for aching joints

Features

6 UP FRONT

12 READERS REPORT

17 CORRECTIONS & CLARIFICATIONS

23 BOOKS

92 INSIDE WALL STREET

123 BUSINESS WEEK INDEX

124 INDEX TO COMPANIES

125 INVESTMENT FIGURES OF THE WEEK

126 EDITORIALS

BusinessWeek ONLINE

www.businessweek.com
America Online: Keyword: BW

Up Front

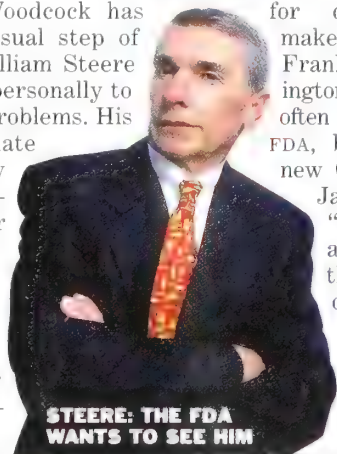
EDITED BY ROBERT McNATT

THE FEDS

WILL PFIZER HAVE TO TAKE ITS MEDICINE?

PFIZER MAY BE WALL Street's favorite drugmaker, but the company's Viagra-boosted success hasn't kept it from running afoul of the Food & Drug Administration. Citing "a broad range of problems related to Pfizer drug products," FDA drug chief Janet Woodcock has taken the unusual step of asking CEO William Steere Jr. to come in personally to discuss those problems. His visit, set for late January, may prove instructive for other drugmakers.

The FDA has already warned Pfizer about violating certain marketing rules. The trigger for sum-



STEERE: THE FDA WANTS TO SEE HIM

moning Steere, however, was different. In its application for the intravenous antibiotic Trovan I. V., approved in 1997, Pfizer failed to tell the FDA that the drug won't work with certain saline solutions used to deliver it. Pfizer says that while it "should have informed the FDA," it hopes Steere's meeting will resolve the issues. But the talk may have implications for other drug-

makers. Richard Frank, a Washington lawyer who often deals with the FDA, believes that new Commissioner Jane Henney "is sending a message that this kind of sloppiness won't be tolerated."

John Carey and Amy Barrett

CORPORATE TOOLS

HOW DAIMLER CROSSES THE POND

MAKE WAY FOR AIR Mercedes. There are no direct commercial flights between newly merged DaimlerChrysler's dual headquarters in suburban Detroit and Stuttgart. And the company's private jets are neither big enough to carry dozens of ocean-hopping execs nor always able to make the trip without refueling.

So the company will start its own air shuttle in early February. A rented Airbus A320 jet, outfitted with 60 reclining business-class seats, will fly between Stuttgart and an airport near U.S. headquarters in Auburn Hills, Mich., at least three times a week. Then, in a year, DaimlerChrysler plans to take de-

livery of a custom-built A320 with larger fuel tanks. That means nonstop journeys of seven to eight hours, up to five hours less than commercial flights.

DaimlerChrysler chose Airbus because it owns 38% of the European jetmaker. The auto company won't divulge the price of the plane,

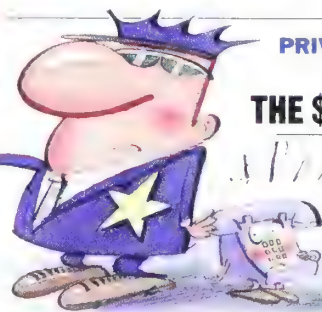


but says that with business-class round-trips costing about \$6,000, the plane is worth it. There is one drawback, though, for DaimlerChrysler's executives. They'll have to wave *Auf Wiedersehen* to all those frequent-flier miles.

Joann Muller

TALK SHOW "I played it to the best I could play it"

—Michael Jordan, announcing his retirement on Jan. 13.



PRIVACY POLICE

THE \$2,000 WRONG NUMBER

law-abiding telemarketers using elaborate data to identify who is calling. Hundreds of consumers have already complained that the law isn't enforced. The state is providing an

informal grace period spread word of the No Call List, giving warnings before it starts the fines. "We're in the educational phase," says a Public Service Commission spokesman.

There are also local Not only are politicians empty, but so is any call that has previously done business with a household. The idea is catching on. Similar laws recently took effect in Illinois and Kentucky while about a dozen states are considering their own versions. Deal

SCORE ONE FOR CIVILIZED dining. Anger over dinner-time calls pitching everything from time-shares to credit cards has galvanized Georgia lawmakers. Since Jan. 1, it has been illegal for telemarketers to phone any home on the state's No Call List. This peace of mind costs consumers just \$5 for two years, and telemarketers can be fined \$2,000 for ringing those on the list. Some 130,000 households have signed up.

But not all is peachy in the Peach State yet, even though

MILLENNIUM MESS

MICROSOFT DIDN'T SWAT ALL THE BUGS

THAT DARN MILLENNIUM BUG. It's catching, and now it's bugging Microsoft, too. The company's Windows 98 software was promoted months ago as being "Y2K bug free."

Apparently it is not. Says Don Jones, Microsoft's Y2K specialist, "Microsoft, during testing, has identified minor Y2K issues" and "is making a Windows 98 Year 2000 Update available immediately that customers can download or order on CD." Jones says the bug could wrongly display some dates and times on occasion, but won't destroy any data.

Bill Gates isn't alone. Lou Marcoccio, chief Y2K researcher at Gartner Group, a tech think tank, says 83% of current off-the-shelf software may have Y2K glitches, down from 89% a year ago. "It's



GATES: Win98 has glitches

getting better, but there's a lot of programs."

A clever new ad on AOL Computer's Web site warns errant software writers in a parody starring HAL, the computer from 2001: *A Space Odyssey*. "Dave, do you remember the Year 2000 computers began to malfunction?" HAL asks. Apparently bug-free, Microsoft says. But, he adds, so do companies are forthcoming about Y2K: "Some manufacturers don't know—careful telling." Marcia Sp



celeron™

PROCESSOR

Look who's in business now.

Great performance at an exceptional value.

Looking for a smart buy? Here's today's top pick: the Intel® Celeron™ processor. It gives you quick and responsive performance for today's business applications. At a great value. And because it's from Intel, you get all the compatibility and reliability you've come to expect. To learn more, contact your PC manufacturer, see your local reseller, or visit us on the Web. www.intel.com/Celeron

intel

The Computer Inside.™



Up Front

OVER THERE

'HATE TO EAT AND FLY, BUT...'



NICE PAD: "Whopper Chopper"

NOW THAT THE DRIVE-through window is a fixture of the fast-food world, Burger King is perfecting the fly-through. A Burger King in suburban London dubs the addition to its regular restaurant the "Whopper Chopper," a landing pad where helicopter pilots can drop in, grab some grub, and fly out without leaving the cockpit.

Pilots call first to alert

Burger King that they are landing. An employee dashes out and calls the order in. Then it is delivered to the waiting chopper. "This is more like the old diners where someone comes out to take your order," says Jon Clarke, a BK spokesman in London. "It's a bit more personal."

Pilots agree. "I think this is a great idea," says Mark Barry-Jackson, an Aero-mega pilot. "Finding suitable places to stop and refuel passengers has always been difficult." The landing pad, which is under a helicopter traffic lane, was so popular it was closed over the Christmas holidays so it could be made big enough to handle military choppers, whose pilots had heard about the place. Burger King, still testing the concept, won't comment on its profitability. But the fly-through is an idea that may just take off.

Dennis Blank

I-WAY PATROL

CAUGHT IN THE SPAM CROSSFIRE

TIRED OF SPAM—THE JUNK E-mail, that is? So are a lot of companies. But they are discovering that combating spam can kill their E-mail.

How so? Spammers often route messages via a third-party network, disguising their real address. To screen out spam, Mail Abuse Prevention System (MAPS), an anti-spam outfit, keeps tabs on which Internet providers, willingly or not, have been used to send spam. When one lands on its "shame" list, watch out. Companies using the MAPS blacklist will block everything from the offending systems, including legitimate E-mail. So companies unaware that MAPS deems their Internet connection a spammer can be shut down.

Lantus Systems, for exam-

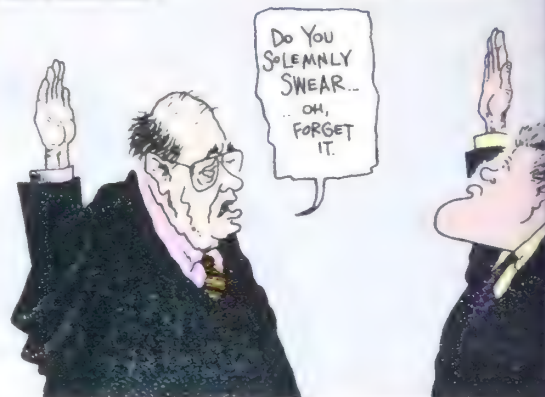


ple, a Richmond (Va.) firm that sells a database of Y2K-compliant companies, was shut down for three days because a spammer used its Net provider. Already, big networks like EarthLink and Microsoft's MSN Network won't let third parties use their Internet servers because MAPS found that spammers once invaded them. MAPS acknowledges that incidents like Lantus's occur. But it considers them a small price to pay for a spam-free world.

Roy Furchgott

DRAWN & QUARTERED

BY ALTHA FOR THE PHILADELPHIA PHOENIX



MAD AVE

PLASTER EVERY MOUNTAIN

ASK YOUR SKI INSTRUCTOR at Vail or Beaver Creek the time, and the teacher will check his or her \$1,000 TAG Heuer watch and say "1 p.m. It's TAG time." Then you're likely to note the 200 TAG Heuer clocks around the resorts, the TAG Heuer logo on the instructors' uniforms, or the Vail ski trail dubbed "Inner Strength," after the watchmaker's ad slogan. Yep. It's safe to say TAG Heuer owns bragging rights to these two Colorado mountains.

"Sponsoring" a mountain is an increasingly hot promo-

tional trend. Vail alone has 15 other sponsorship the likes of Sprint, Coca-Cola, Pepsi, which make significant payments to plaster slogans on trails and products there. Two companies, Starbucks

Allegro fought for Vail's puccino pressor. Allegro

Now and Colorado's moth

in California, and White British Columbia are looking for deep-pocketed sponsors. No one seems complaining about the pant commercialism. Ski instructors at the resorts would like a little. They want those free watches.

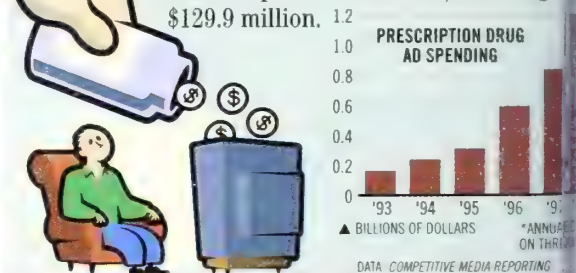
Joan

THE BIG PICTURE

HEY, BIG SPENDER

Cal Ripken Jr. plugs Prilosec for hypertension. Bob Dole promotes Viagra, for you-know-what. Prescription drug ads are booming. The heat is on.

Wellcome spent \$134 million, Schering-Plough \$129.9 million.



FOOTNOTES U.S. Supreme Court decisions on sexual harassment in 1998: 4; in 1993: 1; in 1986: 1

**WWW.it's/getting
late/and-you/still_have
10/packages/to/ship
so/youlogon/and
the-next/thing
you/know/all-your
airbills/are/done_for
you-and/youare_on/your
way/home.COM**



F e d E x i n t e r N e t S h i p .

Shipping packages doesn't require filling out ten lines of information just to complete an airbill. With FedEx interNetShip, select the recipient from your built-in address book, click on their name and your airbill is automatically filled out. Press print, and by the time the airbill comes out of your printer your package has been registered in our system, saving you something you can never have too much of: time.

www.fedex.com/us

FedEx
Be absolutely sure.™

© 1999 Federal Express Corporation



Stylish. Introducing the Toshiba Portégé® Series. Precious metal doesn't get more refined than this. With a magnesium alloy casing and sculpted contours, it's the most ultra-compact powerhouse Toshiba has ever built. Because success isn't just how you carry yourself. It's also what you carry.



Ultraportable. It's one inch thin. And Usability and portability have never been perfectly matched. With its built-in upgradeable modem with DSVD data and full-size keyboard with AccuPoint designed for serious mobility. Not just





The cutting edge.
Forged from an alloy of magnesium
and imagination.



Performance. Powered by the latest Intel Pentium® II processor 300MHz, Portégé has a huge 4.3 billion byte hard drive. 32MB high-speed Synchronous DRAM. Windows® 95 or optional Windows NT.™ Even the new NeoMagic™ graphics controller. All brought to vivid life on an impressive 12.1" display.



Expansion. The optional CD Network Dock delivers full port replication with a 10/100 BaseT Ethernet, 24X* CD-ROM, floppy disk drive and speaker with microphone. When docked, Portégé does the job of a desktop and is still thinner and lighter than most notebooks. Call us at 1-800-TOSHIBA or surf www.toshiba.com

TOSHIBA

The World's Best Selling Portable Computers.

ing a fair but meaningful penalty makes no sense.)
 sure that President Clinton and Democrats would agree to a Congressional rebuke and an early departure from the office of President—of a week, a month, or even more. Republicans, including an offer of immunity from follow-on prosecution, probably want the departure to be within nine months early. We think they would probably accept anything seen as fair—and it would allow the country to start moving forward and let the negotiations begin!

Jim Haugen
 West Bloomfield, Mich.

STOCKS. NO MICROSOFT

Internet stocks: What's their real value? (Cover Story, Dec. 14) draws comparisons with the go-go era of the 1960s, when stock prices flew based upon trendy valuations, only to come crashing down later, when economic reality

of the late '60s, go-go stocks were all supposed to be the "next Xerox." Today "Net stock" is supposed to be the "next Microsoft." However, companies like Amazon.com don't resemble Microsoft—past or present. Amazon.com is an online outlet with gross margins of 10%, huge net losses, operating in a highly price-sensitive market (books, music, etc.) with a low barrier to entry, dependent on the cost of goods it controls. Microsoft, a producer of many goods, has gross margins of 40% and had healthy profits before it went public.

The Internet cyber-casino alone has run up losses, and most admit they don't think they will ever be profitable. Despite the tremendous benefit to consumers, but are poor companies to buy. In 1999 will be the year they are crashing down, followed by well-merited shareholder lawsuits (K-Tel International is but the first). Shorting or selling these stocks is the best long-range strategy.

Dave Grissom
 San Francisco

IVING GRACE FINDING ON DURABLES

comment at the end of "Forget America, your job is to spend" Analysis & Commentary, Dec. 14) reveals another reason why savings rate in the U.S. is seriously threatened. Consumer-durables expenditures—such as the author's new car and living room furnishings, are treated

as current consumption. Yet, realistically, approximately 90% of the current expenditure on those items is savings (as the transportation and dining services will accrue not only this year but also in the years to follow). Therefore, author Ullmann is really saving more than the statistics show; he has just chosen savings vehicles different from the traditional savings passbook.

Once one adjusts expenditures to allocate a share of current expenditures on durables to savings, the personal

savings rate is not nearly as low as is reported in official statistics.

David Hammes
 Hilo, Hawaii

A STOCK WILL DO AGAIN WHAT IT DID BEFORE

"A less-than-random walk" (Economic Trends, Dec. 21) describes the so-called momentum effect, whereby stocks that have done better than the market in the past tend to do better than the

© 1999 The Williams Companies, Inc.



"We're trying to break him of begging for more reliability at the table. Besides, we're with Williams so there's no need."

Hush, puppy. Don't feel hounded by doubts about your company's energy or communications future. Only Williams leads in both, to give your business the reliability and innovation you need in a dog-eat-dog world.

Williams

Energy • Communications • Leadership

1-800-WILLIAMS • NYSE: WMB

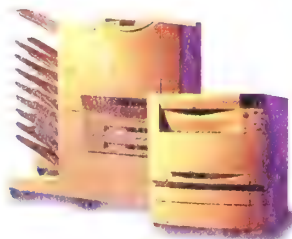
9:00 am

Company Picnic

Saturday 12 Noon



9:08 am



HP. Better color, no matter what you're printing.

Introducing a new line of HP Color LaserJet printers. Be it good times or fantastic times, people want great color printouts. Which is why our new fast and affordable Color LaserJet printers are the perfect choice.

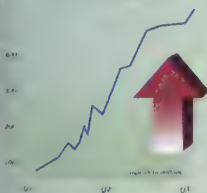
HP Color LaserJet printers start at \$2,499.



HEWLETT
PACKARD[®]

Expanding Possibilities

Company Earnings
Announcement



**RECORD
PROFITS!**

9:21 am

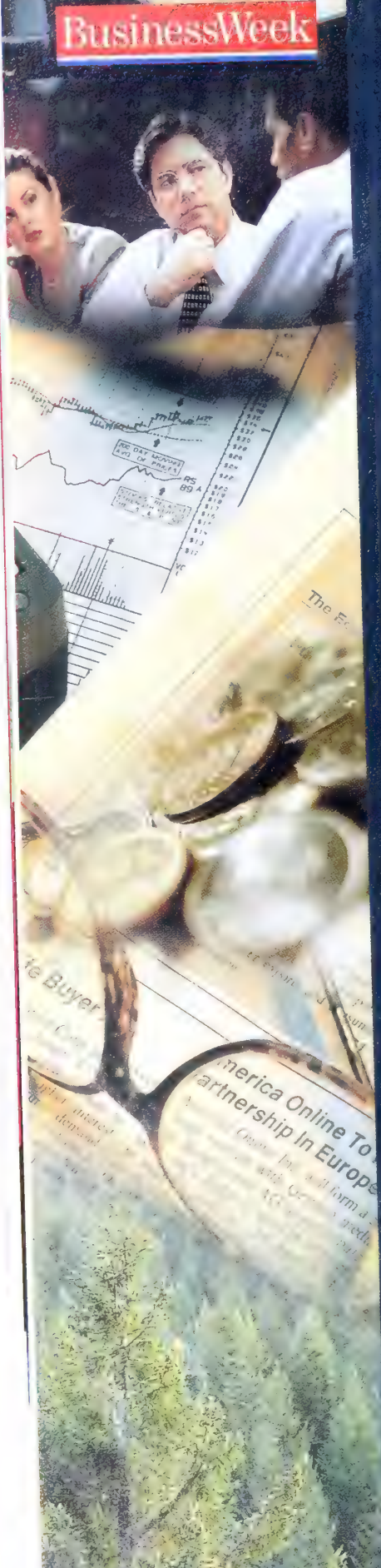
Company
Picnic

Saturday 12 Noon



WITH VERY SPECIAL GUEST:
AirSupply

Jet printers offer our exclusive ImageREt Color Layering technology. Rather than placing red dots next to
ow dots to create the illusion of orange, our process literally mixes the colors to create real orange. Or maroon.
illions of other colors. All at impressive printing speeds, up to 6 ppm. Visit www.hp.com/go/officecolor.



BusinessWeek

IN PARTNERSHIP WITH WORLD RESOURCES INSTITUTE

Announcing

The Next Bottom Line

AGENDA FOR THE 21ST CENTURY

SOLVING SOCIAL AND ENVIRONMENTAL CHALLENGES is no longer optional for companies or society. These global challenges demand ingenuity and resolute efforts to sustain economic progress while preserving the vitality of our communities and the integrity of the Earth's natural systems.

Business Week and World Resources Institute (WRI) are proud to announce a definitive special advertising section, *The Next Bottom Line*. The section will feature essays by CEOs of major corporations and insightful articles by WRI addressing how business can balance new social, environmental, and financial expectations and still provide shareholder/stakeholder value.

Beyond *Business Week's* vast global coverage:

- The internationally renowned *Tomorrow – Global Environment Business Magazine* will print the entire section in its May/June issue.
- The National Town Meeting for a Sustainable America will widely distribute reprints of the section (May 2-5, 1999).
- WRI will introduce the reprinted section to distinguished business schools worldwide.

We invite you to be our corporate partners as we all become stewards of a new balance sheet – a “win-win” for the entire planet.

Issue Date: May 3, 1999 Worldwide Edition

Advertising Closing Date: March 22

For more information, contact your *Business Week* Account Manager Sue Swartzman, Special Projects Consultant at 212/996-7332.

LECTIONS & CLARIFICATIONS

estate: Prognosis 1999" (Industry Services, Jan. 11), Arthur J. e II was incorrectly identified. Mirante is president and CEO of Cushman & Wakefield.

in the future. Superficially, such or seems to violate the efficient-market hypothesis, which predicts that stock-price behavior should not be tied with future prices.

random walks (flips of an unbiased coin, for example) also exhibit what be interpreted as a momentum. One property of a random walk is the number of changes of sign in a given number of trials. A trial might be a flip of a coin, or it might be a certain interval after which the value of a stock is reassessed (an hour, a day, a week). A change of sign occurs when a stock that had been a winner (profit in a stock) becomes a loser (loss in a stock), or when a loser becomes a winner. All the possible sequences of sign

changes in a random walk, the highest probability is for zero changes of sign. That is, a stock that executes a random walk and starts out a winner (increases in value in the first trial, or time increment, after its purchase) has a higher probability of remaining a winner than it has of any other possible combination of winning and losing during the same number of trials. Similarly a stock that starts out a loser has the highest probability of remaining a loser. And when sign changes do occur, they occur much less frequently than most people would expect for a random process.

George W. Pearsall
Durham, N. C.

CRIMINAL JUSTICE: AN OUNCE OF PREVENTION ...

"How the U.S. handcuffed the crime rate" (Economic Viewpoint, Dec. 28/Jan. 4) does an injustice to the efforts to prevent crime that are going on all across America. Instead of celebrating the same old punishment-only, wait-for-the-crime-to-happen philosophy that is popular with the political set, we should recognize proven early-intervention programs that prevent our

youth from becoming criminals in the first place.

Early childhood education, parenting assistance, health-care/nutrition, and after-school programs have proved effective in crime prevention. They also pay for themselves many times over in savings to communities, governments, and the private sector. Public-policy initiatives are needed to provide more funding for such activities.

Gordon P. Rondeau
Marietta, Ga.

WHAT MIDDLE MANAGERS CAN LEARN FROM KEN CHENAULT

"The rise of a star" (Cover Story, Dec. 21) should be read by all middle-management executives in any service business. Ken Chenault has a quality that is missing in many customer-service business executives today. It is no surprise to me that he has accomplished all he has at American Express and was instrumental in its huge gains in value and in its public image. Middle-management personnel today, as a whole, just do not seem to get it: You need the latter to achieve the former.

Back in 1988, I had reached my boil-

HP Color LaserJet 4500 Series printers

Featuring ImageREt Color Layering

- Designed for workgroups of up to 20 people
- 4 ppm color, 16 ppm black
- Supports a wide range of media including envelopes, labels, transparencies and soft-gloss paper
- 8 1/2" x 14" color auto-duplex option
- High volume paper handling—up to 900 sheet input capacity

Starts at \$2,499



HP Color LaserJet 8500 Series printers

Featuring ImageREt Color Layering

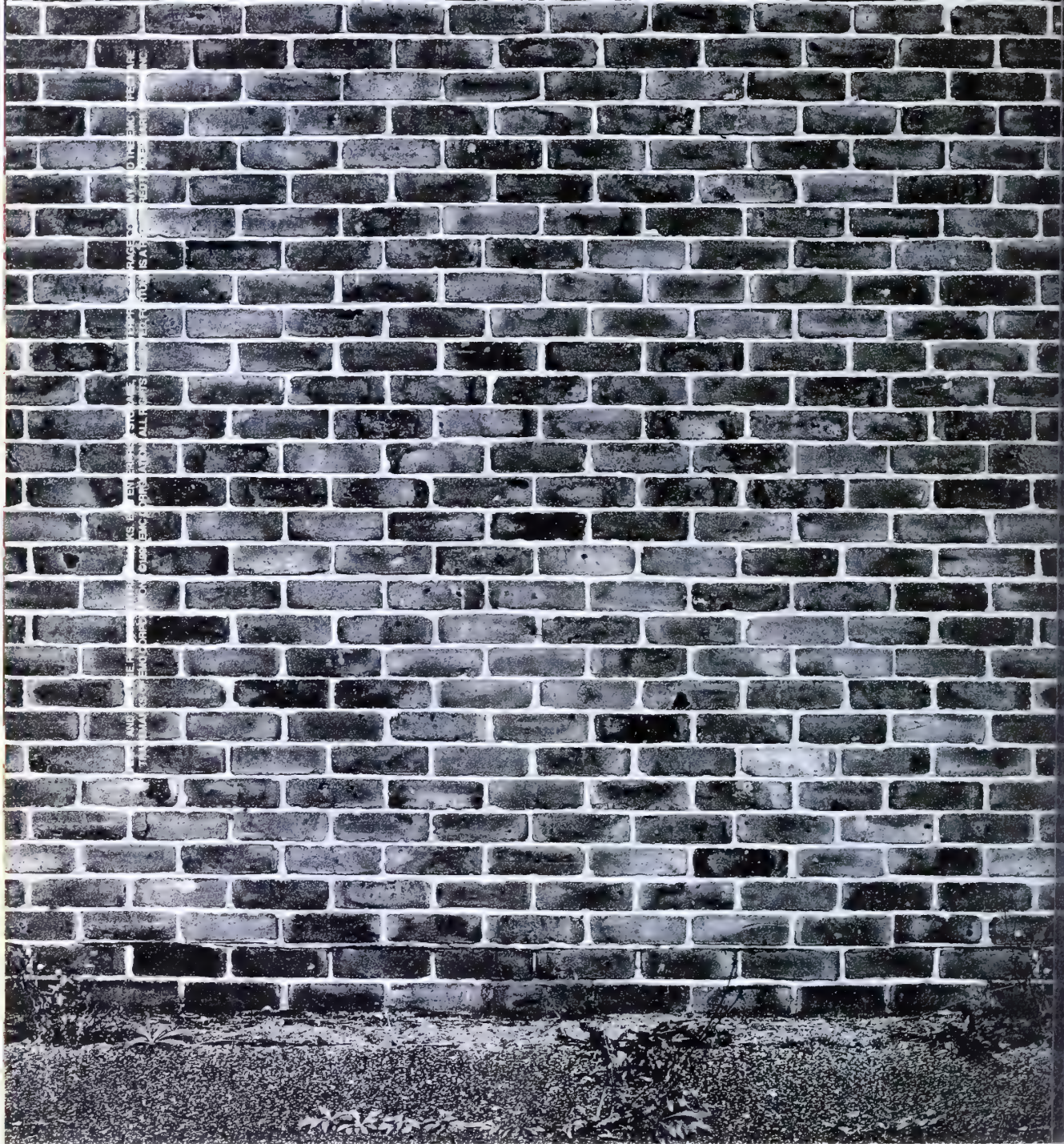
- Designed for departments of up to 50 people
- 6 ppm color, 24 ppm black
- Full range of in-house color printing features—up to 11" x 17" full-bleed for flyers, newsletters, brochures on a wide range of media
- 11" x 17" color auto-duplex option
- Very high volume paper handling—up to 3,100 sheet input capacity

Starts at \$5,999

HP. Better color, no matter what you're printing.

For more information about our Color LaserJet printers, visit www.hp.com/go/officecolor.





EMC²

The Enterprise Storage Company *EMC Enterprise Storage™ provides strategic advantages in areas such as cost control, time-to-market, Internet commerce, data warehousing, and customer service. Advantages that can create new business opportunities. How? By consolidating information and making it available to all, regardless of the computers in use.*



**Protect, manage, and share
information in a way that
helps open markets that were
once closed to you.**



EMC's Enterprise Storage Network (ESN) promises to enhance data access, boost work performance, and automate storage management. It's no wonder over 90 of the FORTUNE® 100 companies are our customers. To put The EMC Effect™ to work for you, reach us at www.EMC.com/brickwall or 1-800-424-EMC2, ext. 702.

100% NO LOAD

A GROWTH FUND WITH BLUE CHIP PERFORMANCE

T. Rowe Price Blue Chip Growth Fund invests in the leaders of today as well as companies expected to become the industry leaders of tomorrow. These blue chip companies can offer you excellent, long-term capital appreciation potential with less volatility than growth funds investing in small and mid-size companies.

A record of proven performance.

The fund's focus on excellence

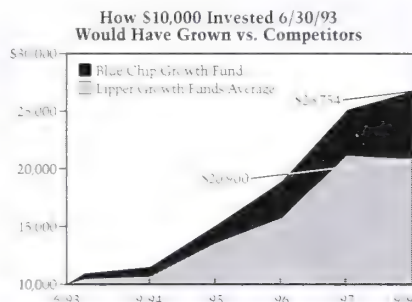
has rewarded investors well. As the chart shows, it has outperformed the average of its peer growth funds over time. The fund has also earned Morningstar's highest rating—

Morningstar



five stars—for its overall risk-adjusted performance. It was rated among 2,744 and 1,655 domestic equity funds for the three- and five-year periods ended 11/30/98, respectively.*

Invest in blue chip stocks. If you're considering enhancing your portfolio performance with a select group of market leaders, call us today. Of course, past performance cannot guarantee future results. **No sales charges.**



ABOUT

ROTH
IRA

Call 24 hours for your free investment kit including a prospectus

1-800-541-6215
www.troweprice.com

Invest With Confidence

T. Rowe Price



6.39%, 19.61%, and 20.61% are the fund's average annual total returns for the 1-year, 5-year, and since inception (6/30/93) periods ended 9/30/98, respectively. Figures include changes in principal value, reinvested dividends, and capital gain distributions. Investment return and principal value will vary, and shares may be worth more or less at redemption than at original purchase. (Source for Lipper data: Lipper, Inc.)

*Morningstar proprietary ratings reflect historical risk-adjusted performance as of 11/30/98. These ratings may change monthly and are calculated from the fund's 3- and 5-year average annual returns in excess of 90-day Treasury bill returns with appropriate fee adjustments and a risk factor that reflects fund performance below 90-day Treasury bill returns. The fund received 5 stars for the 3- and 5-year periods. The top 10% of the funds in an investment category receive 5 stars. Read the prospectus carefully before investing. T. Rowe Price Investment Services, Inc., Distributor. BCG046036

Readers Report

ing point with some of the middle managers who were handling a problem American Express with my daughter's credit card. As a last option, I called the head of customer service at the time, and fortunately for me that was Ken Chenault. I was just one more card holder with what seemed to be an unsolvable problem, but he took the time to put me in contact with a employee in their North Carolina office who turned out to be bright, receptive, and sensitive. She solved my daughter's credit card problem in less than a week and even upgraded her status in the process. It was just good business.

Learn a lesson from Ken Chenault, you middle-management executive in the hospitality industry: Care for every customer.

Dan K...
Saratoga Springs, NY

FINDING US ONLINE

BusinessWeek ONLINE

The full text of Business Week, the Business Week Daily Briefing, and seven years of BW archives are available on the World Wide Web at:

www.businessweek.com

and on America Online at Keyword: BW

To sign up for BW on AOL, call (800) 641-4444 and mention Business Week.

maven

Shopping for computer equipment? Visit Maven, an online Computer Buying Guide, for continually updated ratings and price information. Go to Keyword: Maven on America Online or to the World Wide Web at:

www.maven.businessweek.com

HOW TO REACH BUSINESS WEEK

LETTERS FOR READERS REPORT

All letters must include an address and daytime/evening phone numbers. We reserve the right to edit letters for clarity and space and to use them in our electronic and print editions.

Mail: Business Week, 1221 Avenue of the Americas, 39th floor, New York, NY 10020

Fax: (212) 512-6458

Internet: bwreader@businessweek.com

America Online: readersbw

SUBSCRIBER SERVICES

For individual subscriptions, corporate subscription renewals, changes or problems, and single copies.

Phone: (800) 635-1200 or (609) 426-7500

Fax: (609) 426-7623

Internet: bwcustsv@businessweek.com

Library fee-based services: (212) 512-6704

REPRINTS AND COPYRIGHT PERMISSIONS

For custom reprints (minimum order of 1,000) call (212) 512-3148

For all other permission or reprint inquiries,

Phone: (212) 512-4801

Fax: (212) 512-4938

Internet: www.businessweek.com/reprints/

There's an Easier Way to Reach Your SAP Data and the Right Decisions.



SAS® Software is the Real Breakthrough.

You've invested millions in your ERP system.

Looking for a way to turn all that data into information—and true competitive advantage?

You're ready to expand your business. Seeking a reliable way to evaluate profits, monitor costs, and manage budgets? **You're anxious to satisfy customer needs and stakeholder demands.**

Waiting for one consistent version of the truth—from every corner of your enterprise?

SAS software—from the world's leader in decision support—lets you get down to business with SAP AG's R/3—or any other data.

- ◆ Achieve a rapid return on your ERP investment
- ◆ Enhance profitability through data mining
- ◆ Unleash the business potential of R/3, other ERP systems, or other data sources—using integrated SAS capabilities for CRM, balanced scorecard, quality improvement, and more

SAS software leverages strategic partnerships and is Year 2000 compliant and platform independent.

Visit us at www.sas.com/erpsolutions for more information and to request our **free guide:**

Maximizing Return on Your SAP AG R/3 Investment.

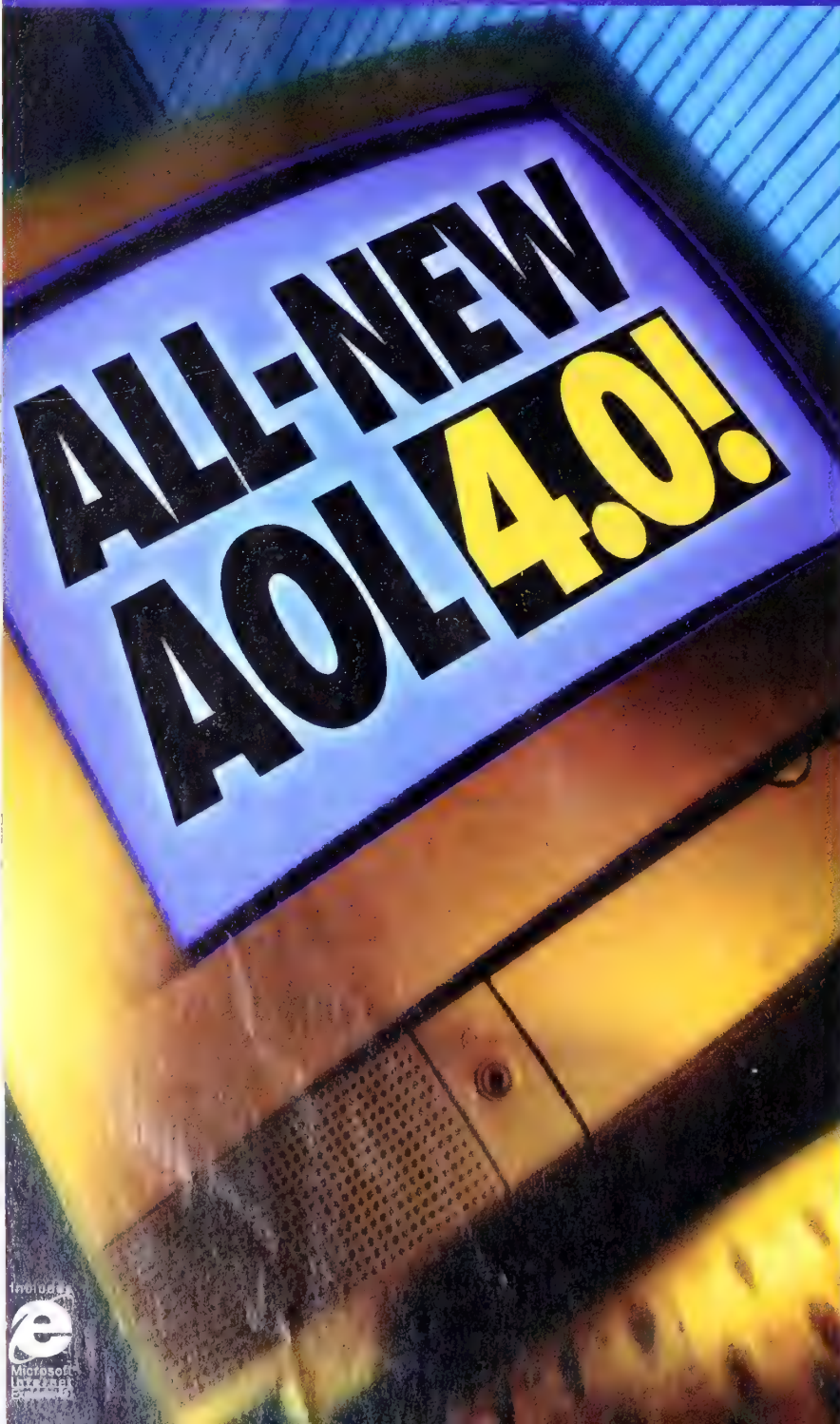
Or give us a call at 919.677.8200.

SAS Institute Inc. The Business of Better Decision Making.



SAS is a registered trademark of SAS Institute Inc. Copyright © 1998 by SAS Institute Inc.

THE EASIEST INTERNET ONLINE SERVICE JUST GOT EASIER!



The all-new version of America Online is easier, faster, and better than ever. It's a snap to install, comes with FREE 24-hour customer service, and comes with you with lots of stuff you can't find anywhere else.

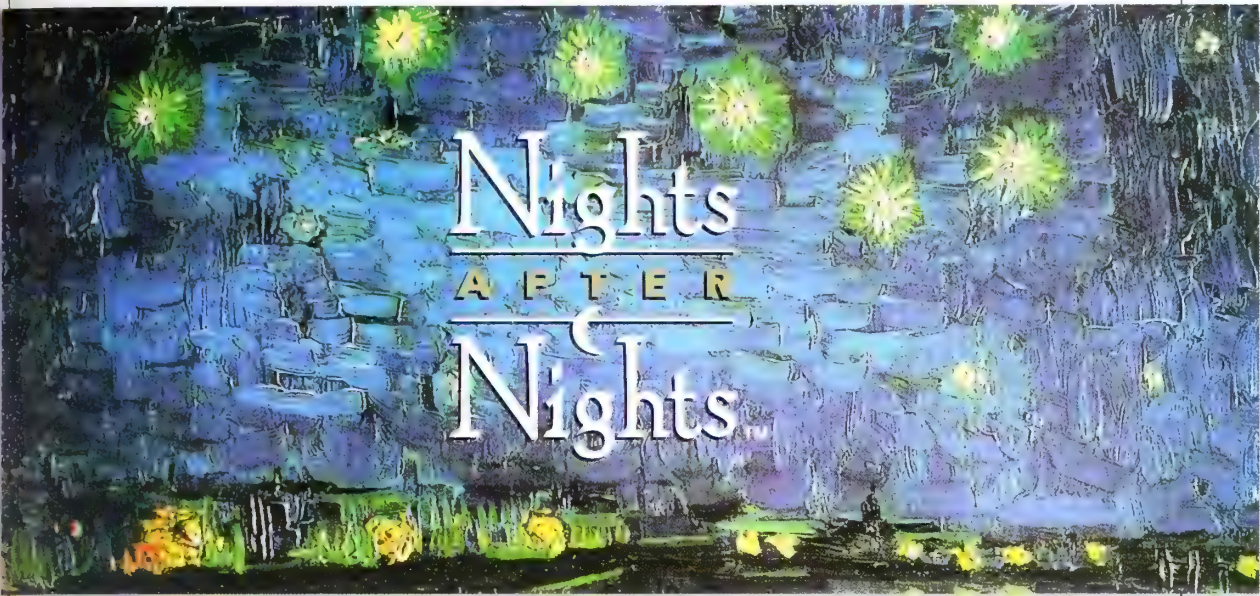
TO EXPERIENCE IT FIRSTHAND, CALL 1-800-4-ONLINE



So easy to use, no wonder it's #1

Availability may be limited, especially during peak hours.
© 1998 America Online, Inc.





Nights AFTER Nights

STAY 2 NIGHTS

Earn 50% Off a Weekend Night at Select Hotels

STAY 4 NIGHTS

Earn 1 Free Weekend Night at Select Hotels
Or 2,000 Bonus Miles

STAY 6 NIGHTS

Earn 2 Free Weekend Nights at Select Hotels
Or 4,000 Bonus Miles

STAY 8 NIGHTS

Earn 3 Free Weekend Nights at Select Hotels
Or 6,000 Bonus Miles

Free Nights or Thousands of Miles Are in the Stars at Hyatt

With *Nights After Nights*,™ every eligible night* you stay between **November 15, 1998 and February 28, 1999**, can count toward your choice of up to **3 free weekend nights** at Hyatt or up to **6,000 bonus miles** with a participating airline partner.

Participating In *Nights After Nights* Is Easy

- Enroll* in Gold Passport, Hyatt's worldwide frequent guest program, and receive your account number to start enjoying all the benefits of Gold Passport.
- Stay at any Hyatt hotel or resort worldwide between November 15, 1998 and February 28, 1999. After April 12, 1999, you will receive the *Nights After Nights* award for which you qualify.

Ask For The Hyatt Great Deal

In addition to *Nights After Nights*, you can enjoy savings of 20% to 50% off the published room rates at select Hyatt Hotels and Resorts* worldwide from November 15, 1998 through February 28, 1999.

Ask for offer code **DEALS** when making reservations.

To enroll in Gold Passport visit www.goldpassport.com

Or call **1-800-51 HYATT**

For reservations: **1-800-45 HYATT**



If you are already a Gold Passport member, you must register to participate in the promotion via www.goldpassport.com or by calling 1-800-51 HYATT.

Airlines participating in the *Nights After Nights* promotion: Aeromexico, Alaska Airlines, All Nippon Airways, American West Airlines, American Airlines, British Airways, Continental Airlines, Delta Air Lines, Midwest Express Airlines, Northwest Airlines, Qantas, South African Airways, Thai Airways, TWA, United Airlines, and US Airways.
To qualify, you must enroll in Gold Passport, provide your account number at check-in and pay an Eligible rate. Current members must register. *Eligible rate is any hotel published room rate except: airline employee, travel agent industry, intercompany or Hyatt employee discount, permanent contract and hotel contract room rates. Qualifying nights must occur between November 15, 1998 and February 28, 1999. Only one credit will be given per member, per night, regardless of the number of rooms. Award nights do not qualify. Limit 3 free weekend nights or 6,000 bonus miles/credits with this offer, regardless of the number of nights you stay. After April 12, 1999, you will be sent the award certificate for which you qualify. 50% Off and Free Weekend Night certificates may be redeemed for room rate only at participating properties, subject to limited availability, between July 1 and September 15, 1999, or November 15, 1999 and January 31, 2000, and are not valid at Hyatt Resorts, Park Hyatt® Hotels or Hyatt Regency San Diego. 50% Off certificate is not valid at The Lowndes (London) or Hyatt Regency Paris - Madeleine. Or, certificate may be redeemed for miles/credits in a participating airline program by September 15, 1999. Other restrictions apply. This promotion is subject to the terms and conditions of the Gold Passport program. Hyatt Hotels and Resorts encompasses hotels and resorts managed, franchised or operated by two separate groups of companies - Hyatt Corporation and its affiliates and affiliates of Hyatt International Corporation. © 1998 Hyatt Corp. American Airlines® is a registered trademark of American Airlines, Inc.

We know how difficult running an office can be.



So we started a support group.



**Boise Cascade
Office Products**

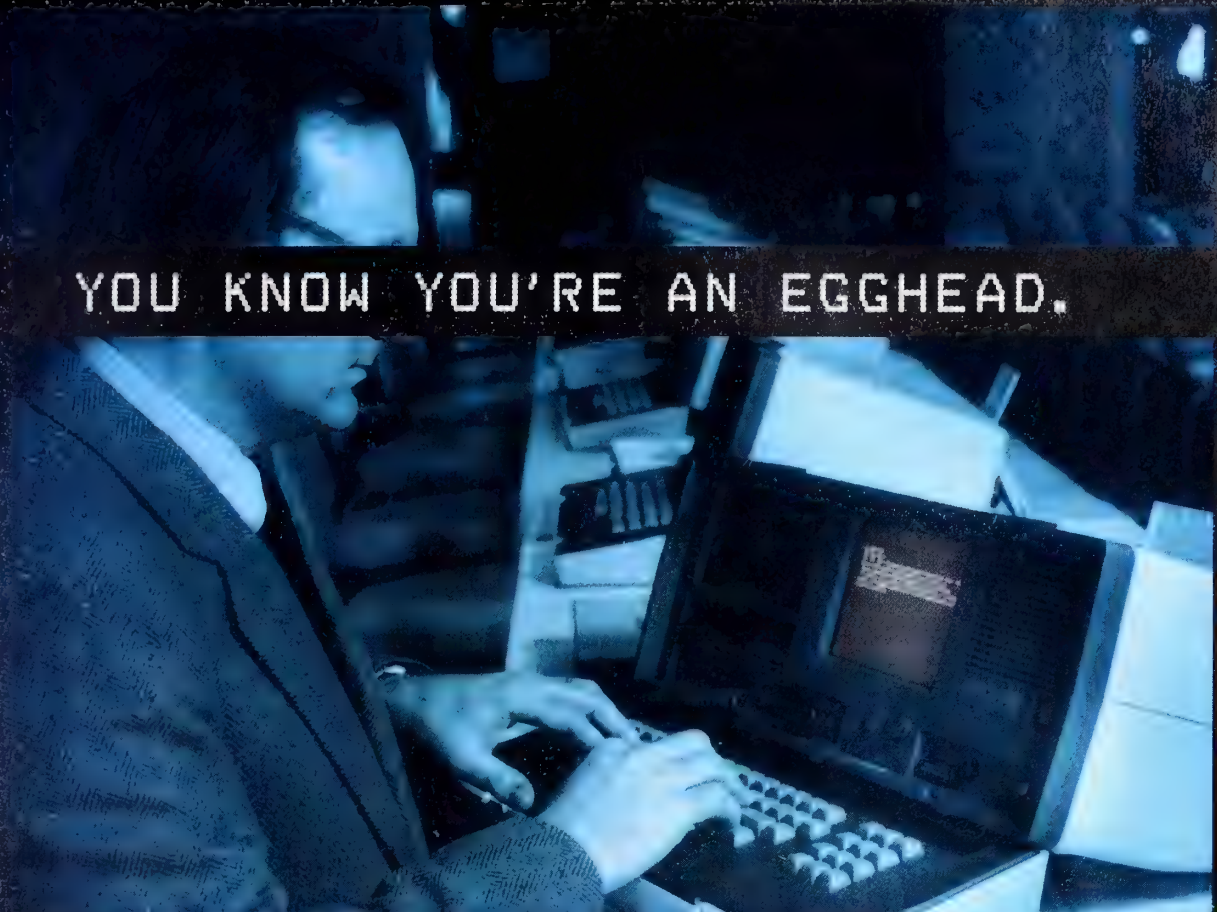
www.bcop.com

It's that rare service mentality. Something that's obvious through every encounter you have with our people at Boise Cascade Office Products. While other providers offer a similar large selection of supplies and furniture items, you'll notice that we manage to deliver it all in a way that makes your job easier. As a Boise customer, you can count on impressive service as part of every fast and accurate order.

Call **888-BOISE-88** and you'll see what we mean.

BOISE. IT COULDN'T BE EASIER.

OFFICE SUPPLIES • TECHNOLOGY PRODUCTS • FURNITURE • PROMOTIONAL PRODUCTS



YOU KNOW YOU'RE AN EGGHEAD.

AND YOU'RE NOT ALONE.

There are millions of eggheads. And the new Egghead.com offers you three intelligent ways to shop for the best values on the Web. Our diverse assortments range from computers and office products to sporting goods and jewelry. Choose from among the top brands in America. With so much more than just software, being an egghead is a lot more popular than it used to be.

egghead[®]
com

SHOP THREE TIMES SMARTER™

Superstores

Over 30,000 products online

Auctions

Action-packed online bidding

SurplusDirect

The online liquidation center

YOUR SECOND \$20 MILLION, FORTUNATELY, COMES EASIER.

Life on Easy Street arrives with a surprise: the walk can be hard. The celebrated "comfortable" life, it turns out, often is not.

A friend suggested this when he reminisced about his earlier life when you have no money, he said, you never worry about what to do with it.

In our friend's simpler times, he never faced the realization that one bad decision could cost him more in taxes than his father had ever earned. Nor had our friend ever learned that the old axiom "never spend the principal" could cost him hundreds of thousands of dollars.

To help make the "comfortable" life more comfortable, we practice *total wealth management*. We integrate investment planning and execution with income and

estate tax planning, custody and family office services, and charitable gift management. And we bring order to your busy life.



Our investment and financial principals provide these services to 225 families whose average net worth now exceeds \$21 million, and whose loyalty to us is remarkable. Virtually every client to ever join us is still with us, in 38 states nationwide.

The rewards for their remarkable devotion, by the way, have never been greater. Even by today's near vertical stock market standards, Lowry Hill's clients have flourished.

You can, too—while you thoroughly enjoy the ride. Peter Glanville (888-648-8157 or peterg@lowryhill.com) would be delighted to tell you how.



LOWRY HILL

CONTINENT
; Twentieth Century
Mazower
487pp • \$30

TER A BLOODY CENTURY, S EUROPE CHANGED?

iving east from Paris a couple of weeks ago, my family and I stopped at Verdun to see the ring fields of World War I. Next year east, we explored a bombed of the old Maginot Line, France's fortifications that failed to thwart y's invasion in the spring of the death toll in Europe's first this century, from wars and sponsored killing, reached 60 million yet here we were, at the end same century, gliding across the into Germany, not stopping for checks or customs. Simple as from Ohio to Kentucky. that Western Europe has buried rivalries and built a half-century—and forged a Continental cur—is the bloody first half of this relevant anymore? Are Euro-mply democrats who lost their a few decades? Those are the ns raised in Mark Mazower's *Continent*. And as you might from the title, this historian at University of Sussex finds plen-arkness in Europe's soul. Unfor-y, he ultimately seems to get elmed by the dark details and his focus. rtheless, he starts the book with ovocative points. First, Adolf often viewed as a madman who a nation, was in fact a politician ealed to longstanding European and antidemocratic values, ones n still be seen at work in the Yugoslavia. Second, democracy in irts of Europe has shallow roots istory of failure. In fact, until the ericana that followed World War a handful of European coun-ost of them small, had democra-tions. ee just how fragile Europe's acy has been, Mazower takes us o 1919. In retrospect, it was a

brief shining moment—one with chilling parallels to our own post-cold-war era. Following the Versailles Treaty, a host of new republics sprang up from Lithuania to Bulgaria. The new League of Nations vowed to oversee this nation-building, and Western powers and investors lined up to offer support.

Things deteriorated rapidly. Just like today, Western largesse was more talk than action. And many of these states found themselves at odds with minorities: Czechs discriminated against ethnic Germans, Greece deported more than 1 million Muslims to Turkey, and Turkey oversaw the killing of perhaps 1 million Armenians. Meanwhile, as economies sank into the Great Depression, politicians were likely to blame troubles on Jews.

European democracy was feeble to start with, Mazower writes. And the Depression buried it—not only in the East but also in much of the West. After this failure of democratic capitalism, many politicians welcomed the more vigorous "New Order" rising in Germany. Indeed, Mazower says that it was only Hitler's excesses—from death camps and the reintroduction of slavery to a lost war—that turned Europeans once again toward democracy. "European hearts and minds were not so much won by the Allies as lost by Hitler," he writes.

Call me simplistic. But as I read his impressive chapters on the interwar era, I expected Mazower to make the case that in a coming recession, nationalist demagogues could rise again and tear down Europe's carefully crafted union. Why else grab our attention with the foreboding *Dark Continent* title? But instead, the historian leads us on a long-

winded ramble through the century, where he seems to lose sight of his thesis. Toward the end, he brushes off the threats to peace from a broken-down Russia or a Germany still marked by the last war. Europe, he maintains, has not yet forgotten the ordeals of this century and won't risk repeating them until the memories fade.

So, where now for Europe? This small chunk of land dominated world history for nearly half a millennium, from Columbus' first voyage to the Battle of Stalingrad. Europe's vigor, Mazower argues, has been rooted in utopian ideologies, each of them, whether Christianity, universal communism, global democracy, or a Thousand-Year Reich, presenting its own vision as an End of History. These ideologies pushed Europeans into countless frays, convulsing it and much of the world.

If Europe is to be a growing force in the 21st century, its next mission is clear as an Alpine pond. It must lasso the East into its orbit, just as Napoleon and Hitler tried to do, but by using free markets this time instead of armies. Only by incorporating that region can Europe spread its wealth and grow—while at the same time reducing the risks of new dictatorships and wars. Trouble is, says Mazower, such action requires fervent commitment to a utopian ideology, something he sees as lacking today in Europe.

Not surprisingly, *Dark Continent* finds grounds for pessimism. The author describes apolitical people, much like their cousins across the Atlantic but less sure of their place in the world. He quotes a Belgian diplomat who jokingly calls Europe "an economic giant, a political dwarf, and a military worm."

But if Europe's worm status as a military power prevents it from acting decisively in the former Yugoslavia, it also lessens chances of another Verdun. Indeed, even by Mazower's reckoning, Europe concludes the century as an economic giant largely at peace. There are worse ways to begin a new millennium.

BY STEPHEN BAKER

Baker writes from *BUSINESS WEEK's* Paris bureau.



ON THE CONTINENT, DEMOCRACY HAS SHALLOW ROOTS AND A HISTORY OF FAILURE

BY STEPHEN H. WILDSTROM

BATTLE OF THE LIGHTWEIGHTS

In a bout between Jornada and Portégé, E-mail makes all the difference

When I'm traveling, my laptop can't be too thin or too light. On the road, my computing needs are limited mainly to handling a crush of E-mail, some light word-processing, and odd chores, such as maintaining my schedule and tracking expenses. I'm willing to sacrifice power and features for the sake of portability. In the search for the notebook that will make the smallest bulge in my briefcase and the shallowest dent in my shoulder, I checked out two different minimalist approaches to mobile computing.

The \$1,650 Toshiba Portégé 3015CT is a full Windows computer, typical of a style of Japanese subnotebooks pioneered by the Sony Vaio 505GX. The Toshiba weighs just 2.9 lbs., is only ¾-in. thick, and features a nearly full-size keyboard and a 10.4-in. active-matrix display.

The \$1,000 Hewlett-Packard Jornada 820 runs on the latest version of Microsoft's Windows CE operating system. It weighs 2.5 lb., is thicker but smaller than the Toshiba, and features a good 8.5-in. passive-matrix color display. The mechanics of its keyboard make touch-typing easier than it is on the Toshiba. The Jornada uses a touchpad for navigation instead of

the touch-sensitive screen typically used with Windows CE.

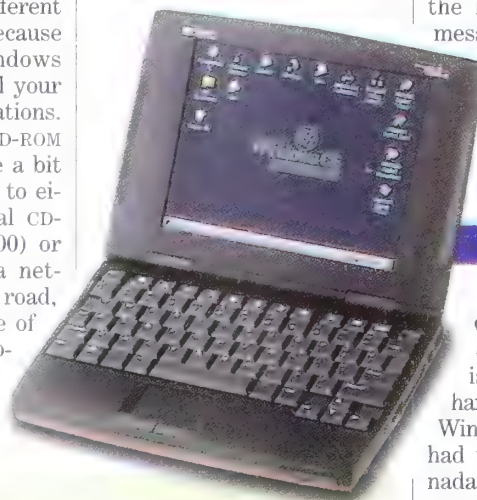
The real contrast between these two is in their different flavors of Windows. Because the Portégé uses Windows 95, 98, or NT, it runs all your familiar desktop applications. The lack of a built-in CD-ROM drive (around \$300) or connect to a local-area network. But once on the road, I don't find the absence of a built-in floppy or CD-ROM much of an issue. If you don't need the fastest processor, the biggest display, or fre-

of the Toshiba's. The other becomes apparent when you hit the power button and the Jornada comes instantly to life, with no boot time. And it's easy to swap or update files with your desktop PC using a cable connection.

BIG GAPS. But the Jornada's disadvantages become apparent almost as quickly, and they are serious. Microsoft designed Windows CE around an integrated package of applications that are lightweight

gram. But despite the thumb that Microsoft things right on the this time, it looks as if take at least a fourth new version lets you regular Word, Excel PowerPoint attachments you can manage mail on corporate mail. But the program lacks features that I regard ical in an E-mail program, especially for mobile use. For example, the inability to discard junk messages themselves same time makes difficult to scan messages quickly. The gram also lacks to discard junk automatically.

HP JORNADA 820



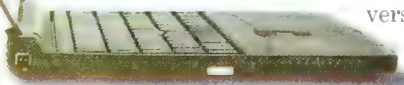
Furthermore, Windows CE relies on a very dial-up networking is even crankier harder to configure. Windows 95/98 equivalent had trouble getting the Jornada to connect to BT WEEK's remote-access and, once connected, it's always able to exchange messages with our Net Messaging Server. Windows CE is optimized to work other Microsoft products the Jornada performs a corporate set-up than the Exchange E-mail and Outlook 98 for contact management scheduling.

I find the idea of lightweight, simple, and inexpensive E-mail machine in ing, and HP has executed best Windows CE devices have seen. But a professional E-mail machine needs rate E-mail software. Microsoft has spoiled the idea by failing to deliver considerable advantage low cost, long battery and instant boot-up just overcome the weaknesses the E-mail software. A trailblazer such as the is a much better choice.

Small and Smaller

	TOSHIBA PORTEGE 3015CT	HP JORNADA 820
OPERATING SYSTEM	Windows 95, 98, or NT	Windows CE
PROCESSOR	Pentium, 266 MHz	StrongARM, 190 MHz
DISPLAY	10.4-in. active matrix	8.5-in. passive matrix
DIMENSIONS	10.1 x 7.8 x .78 in.	9.7 x 7.0 x 1.3 in.
WEIGHT	2.9 lb.	2.5 lb.

DATA: MANUFACTURERS



TOSHIBA PORTEGE 3015CT

quent access to a CD, the Portégé makes a fine traveling companion.

Beyond the obvious advantage of price, the Jornada approach has some big pluses. One is 10 hours' worth of battery life—three times that

versions of Microsoft Office programs. I find Pocket Word and Pocket Excel adequate for my limited needs on the road. (Pocket PowerPoint is really just a viewer that lets you show, but not edit, slides, severely limiting its usefulness.)

The E-mail program is the problem. Jornada features Microsoft's third attempt at a Windows CE E-mail pro-

QUESTIONS? COMMENTS? E-mail tech&you@businessweek.com or fax (202) 383-2125

A world of investment expertise is now available on a very personal level: Yours.

Dean Witter and Morgan Stanley have joined, giving you an entirely new world of investment advice.

Our expanded resources include Morgan Stanley Dean Witter's top-ranked equity research analysts, who cover more than 2,000 companies worldwide. Extended global reach, with over 400 offices in 28 countries. And one of the top-ranked departments underwriting Initial Public Offerings.

Armed with these new resources, our Financial Advisors will analyze your personal financial situation and give you powerful, yet personal advice that can help you realize your dreams. For details on our complete range of capabilities, call 1-800-THE-DEAN for a free brochure.

MORGAN STANLEY DEAN WITTER

Measuring success one investor at a timeSM



Morgan Stanley Dean Witter is a service mark of Morgan Stanley Dean Witter & Co.
Investment services are offered through Dean Witter Reynolds Inc., member SIPC.
© 1997 Morgan Stanley Dean Witter Reynolds Inc.

If business is war,
we've just turned Windows NT®
into a graphically superior

weak

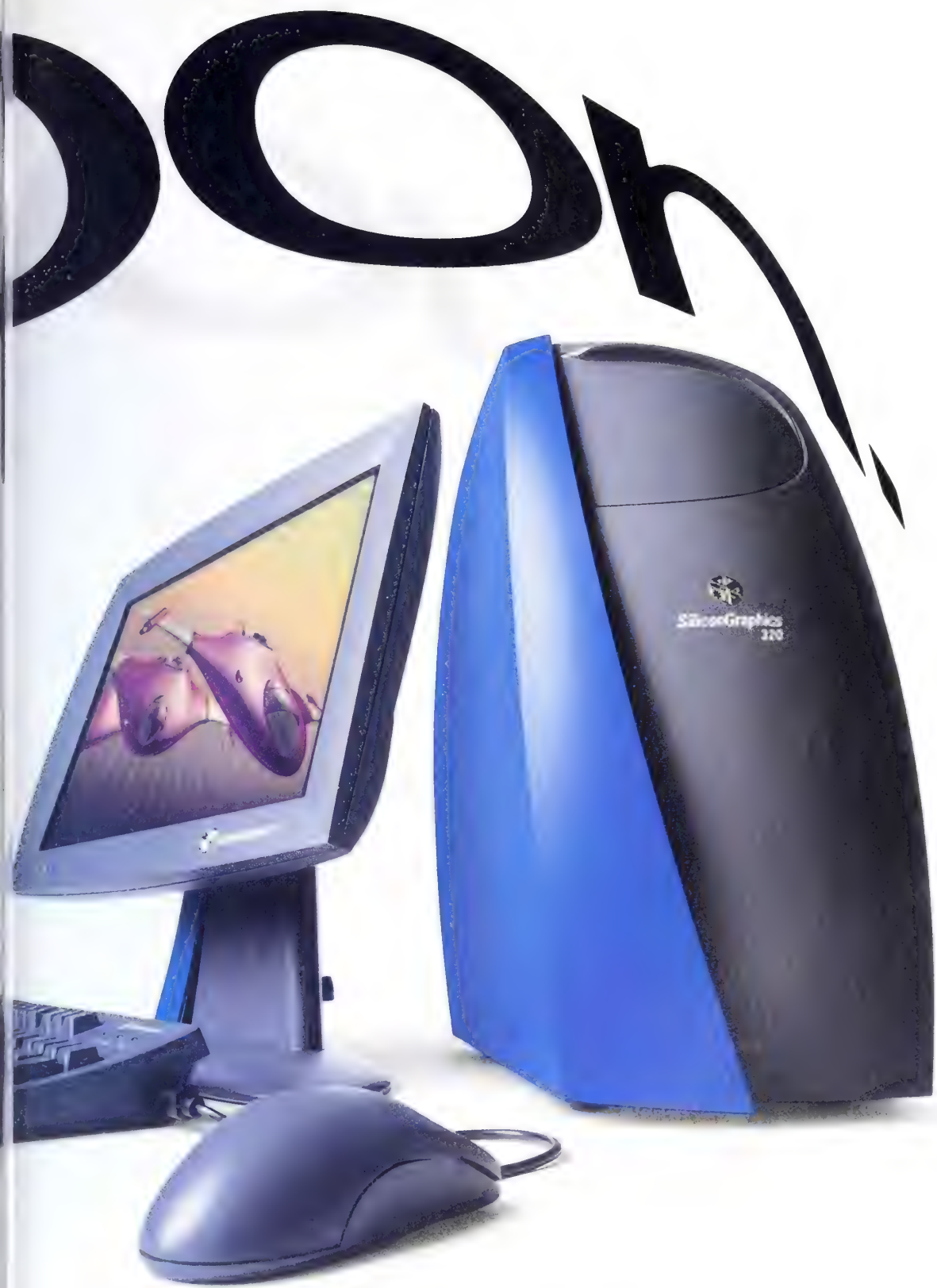
For years, leading companies worldwide have relied on high-performance visual computing solutions from Silicon Graphics® to gain a competitive advantage. In fact, Silicon Graphics' solutions are the weapon of choice for some of the world's most visually demanding tasks, including automotive 3D modeling, cinematic special effects, even flight simulation for fighter pilots. Now our new line of visual workstations lets you harness Silicon Graphics' firepower on the Windows NT platform. Featuring our Integrated Visual Computing (IVC) architecture with the Cobalt graphics chipset, these breakthrough machines move graphics data six times faster than AGP 2X-based workstations, helping you increase productivity and improve your bottom line. Best of all, pricing starts at just \$3,395 allowing you to bring the visual computing power of Silicon Graphics to your company without declaring war on your budget.

STARTING
@
\$3,395

[Silicon Graphics 320™ Visual Workstation]



- Silicon Graphics Integrated Visual Computing architecture with Cobalt graphics chipset
- Supports up to two Intel® Pentium® II processors (up to 450MHz)
- I/O bandwidth up to 12 times greater than other PC workstations**
- Ultra ATA or optional Ultra2 SCSI drives up to 28GB total capacity
- Microsoft® Windows NT® Workstation 4.0
- Add the SuperWide™ 17.3" Silicon Graphics 1600SW™ digital flat panel monitor (shown) for only \$2,495



SiliconGraphics

To get information, find a local reseller or to order, call 1 888 SGI-9369 or visit us at www.sgi.com/go/visual

BY JEFFREY E. GARTEN

MEGAMERGERS ARE A CLEAR AND PRESENT DANGER



BEHEMOTHS:
The vast scale of today's corporate linkups threatens to tip the balance of public and private power

The wave of megamergers washing over the U.S. cannot be held back. But that's no reason why we should ignore its impact on American society. The past two years have seen some of the largest combinations in history: Citibank and Travelers, WorldCom and MCI, Daimler and Chrysler, and British Petroleum and Amoco, to name a few. Many more huge transactions are pending, including Deutsche Bank and Bankers Trust, Exxon and Mobil, and Aetna and Prudential Health.

The fierce competitive pressures forcing megamergers, such as cost-cutting and the need to achieve scale in the global economy, are understandable. But the mergers raise a broad issue that goes beyond traditional concerns. For example, antitrust issues could be a worry—but happily the Justice Dept. and the Federal Trade Commission are alert to their responsibilities. And while nearly every major merger entails huge layoffs, the economy for now is creating more jobs than are being lost.

The big problem with these gigantic mergers is the growing imbalance between public and private power in our society. No one should deny the importance of free markets as the best engine for our economy and as protector of so much of our personal freedom. But it is doubtful that Americans will equate Adam Smith forever with the total interests of society. In the gilded age of J.P. Morgan and John D. Rockefeller, for example, unchecked corporate power led to a dramatic increase in government activism—from antitrust laws to the establishment of the Federal Reserve and the Securities & Exchange Commission. The laissez-faire 1950s were followed by more than a decade of new government mandates on business in fields such as environmental cleanup and equal-opportunity employment.

LOCAL LAPSES. Today, the pendulum is swinging again, as markets, and particularly the megacorporations, come to dominate national and global affairs. Of course, huge multinationals are nothing new, but nowadays an era of Big Government is being superseded by the age of global goliaths.

Superlarge companies with interests and commitments stretching from Boston to Brisbane are unlikely to focus as intensely as smaller ones do on support for the local neighborhoods—the schools, the arts, the develop-

ment of research activities, the training of potential workers.

Big companies have disproportionate influence on national legislation. Our scandalous laws for campaign contributions give little doubt that megacompanies will have huge power over politicians when it comes to such issues as environmental standards, tax policy, Social Security, and health care.

For all the talk about free markets, companies such as Citigroup may simply be too big to fail. Recall how Washington bailed out Lockheed and Chrysler. Megacompanies almost beyond the law, too, because of deep pockets allow them to stymie prosecutors in ways smaller defendants cannot. If they lose in court, they can pay large settlements without much damage to their operations.

NEAR EQUALS. Corporate giants will also exert massive pressure on America's internal behavior. Defense contractors such as Lockheed Martin, the result of a 1995 merger, have successfully pushed for NATO expansion and for related military sales to Poland, the Czech Republic, and others. Combined with companies such as Boeing-McDonnell Douglas with their already formidable grip on trade policy. Companies like Exxon Corp. will deal with oil-producing countries almost as equals, conducting the most sophisticated private diplomacy since the British East India Company wielded near-sovereign power throughout Asia.

The American economic system is designed best when public and private needs are balanced. The sheer magnitude of megamergers is skewing the equilibrium. What can be done? The obvious priority is serious campaign finance reform to prevent any single interest group from controlling national politics. There may also be a variety of other regulatory questions that will make Washington more effective in keeping up with the seesaw of public and private power.

More important, we could use a vigorous national debate over both corporate and government responsibility in this new era of global capitalism. Many related issues have arisen in the Asian financial crisis, where the power of capital has overwhelmed the ability of national governments to manage their economies. Finding the right balance between markets and the public framework in which they operate is the most important task of our times.

Jeffrey E. Garten is dean of the Yale School of Management. A former investment banker, he was Under Secretary of Commerce for International Trade in the first Clinton Administration (jeffrey.garten@yale.edu).

The Charles Brewer Story

HOW ONE GEORGIAN TURNED A FLOOD OF KNOWLEDGE TO A MINDSPRING.

 **MindSpring** The key to cyberspace and a billion dollars fits the door to an apartment in Atlanta. That's where Charles Brewer started an Internet services company called MindSpring. In just three short years, Brewer and some of Georgia's brightest minds turned a one-man show into a billion dollar enterprise that serves more than 400,000 subscribers. That's the Charles Brewer story, and he wrote it in Georgia.

WHERE'S YOUR STORY GOING?

Call 404-656-9306
www.georgia.org


Founder and CEO MindSpring Enterprises, Inc.

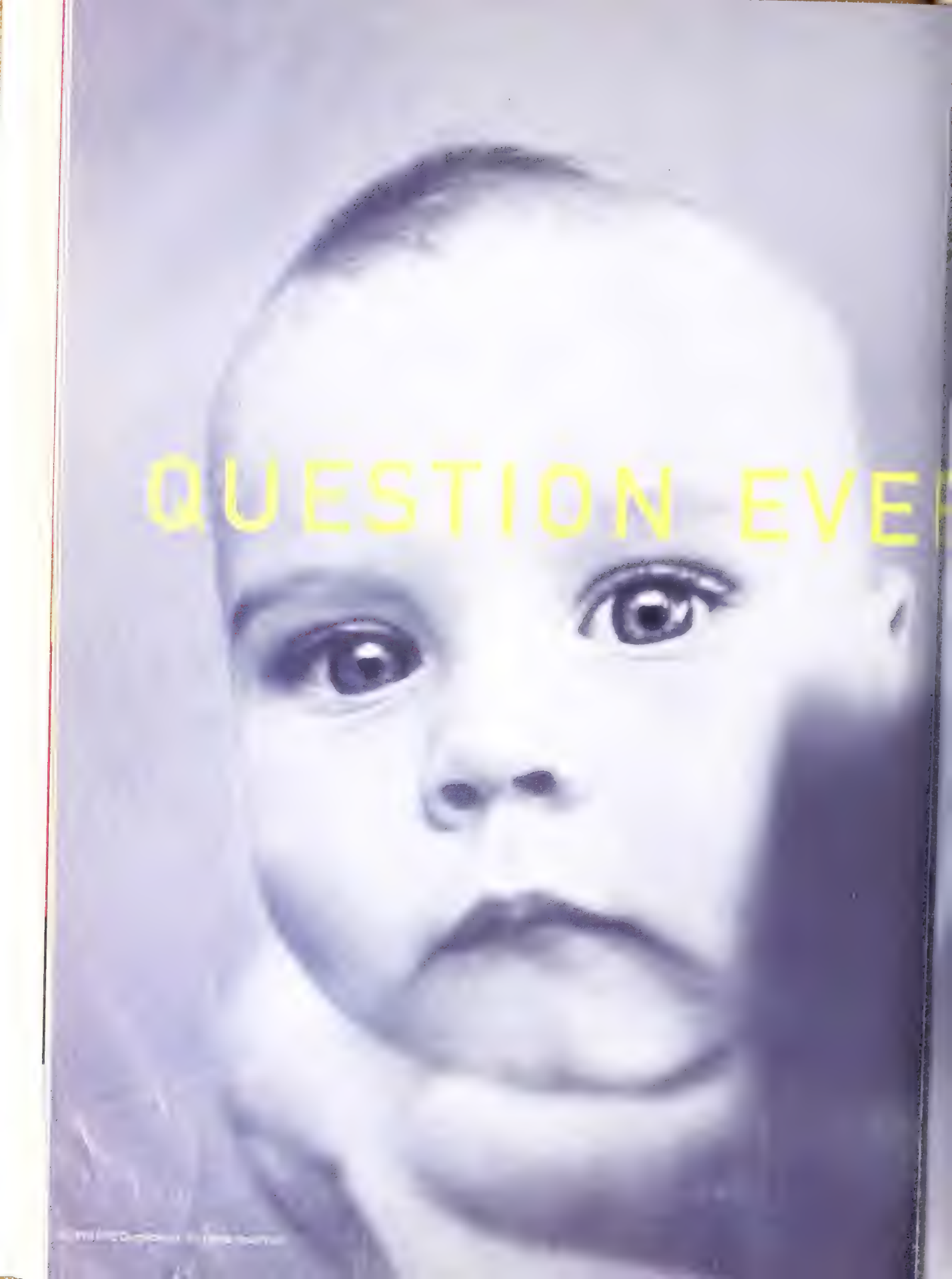


GEORGIA

Georgia Department of Industry, Trade & Tourism

285 Peachtree Center Ave. N.E., Marquis Two Tower, Suite 1100, Atlanta, GA 30303-1230 404-656-9306 www.georgia.org

©1996 I.T.I.



QUESTION EVERY

THING.

It all started with a question: "How can people work smarter?" The answer was the Internet. A company called BBN created the forerunner to the Internet, sent the world's first e-mail, and set the "@" symbol in motion. BBN is now GTE Internetworking. And we're still asking questions. Questions about your business, your people, your dreams. To provide answers, we're investing hundreds of millions in a global Internet backbone 100 times faster and substantially more secure than today's Internet. And we're shaping the future of how we work, play, communicate and conduct e-business. In every sense, we're people moving ideas. The Internet contains a world of information, knowledge and promise. To get the answers, you need the right questions and this is where they're @.

www.internetworking.gte.com or 800.472.4565



INTERNETWORKING

POWERED BY BBN

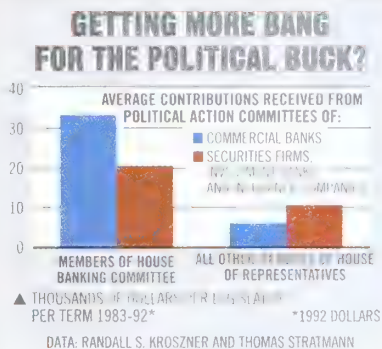
BY GENE KORETZ

NOT-SO-STRANGE BEDFELLOWS

Why pols get entwined with PACs

Congress may not be, as Mark Twain copined, America's native criminal class, but his quip hasn't lost its pertinence. For as long as anyone can remember, people have worried about lawmakers bending their legislative efforts to benefit those who offer them substantial financial support.

To economists, who believe economic rationales explain much of human behavior, all of this is predictable. In their view, political markets function like oth-



er markets, with legislators and private groups each seeking to further their interests—by getting reelected in the case of lawmakers and by influencing legislation in the case of interest groups.

Writing in the latest *American Economic Review*, Randall S. Kroszner of the University of Chicago and Thomas Stratmann of Montana State University argue that the current congressional committee system evolved precisely to promote such dealing between legislators and interest groups. Unlike many parliamentary systems, which set up temporary committees to deal with specific issues, America's system features specialized standing committees whose members enjoy long tenure. This permits committee members to establish records that foster repeated interactions with private interests concerned with pending legislation.

The authors' case in point: the House Banking Committee and legislative efforts in recent decades to let commercial banks expand into the securities and insurance businesses—efforts avidly opposed by the affected industries.

Analyzing campaign contributions

from political action committees from 1983 to 1992, the two economists found that Banking Committee members garnered five times as much, on average, from commercial banks as did other House members. And their combined receipts from securities firms, investment banks, and insurance companies were twice as large (chart).

The study also showed that the longer a Banking Committee member sat on the committee, the more his campaign contributions tended to come from financial-services PACs—and particularly from one or another of the rival industry groups. By contrast, such contributions declined sharply for members who announced their intention to switch to another committee or to retire. All of which suggests that the committee system not only helps lawmakers to build reputations that attract increasing contributions, but also enables rival groups to focus their contributions on legislators receptive to their respective interests.

Is this harmful to the democratic process and social welfare? While some argue that such activities by competing special interests result in better-informed legislative decisions, most people are dubious. Kroszner and Stratmann take no position, but they observe that proposals to impose term limits on committee memberships imply a shift of contributions—and power—away from committees and their members to political parties.

DECIPHERING THE JOBLESS RATE

Why it may not portend inflation

There's little question that the U.S. jobless rate is low—slipping back to 4.3% in December and posting an average rate of 4.5% last year. At that level, the lowest full-year reading since 1969, many observers believe the employment situation should have started kindling inflationary fires some time ago.

While there is no shortage of explanations why it hasn't, economists Robert Horn and Philip Heap of James Madison University believe one is that the official unemployment rate exaggerates the strength of economic activity. In an article in *Challenge*, a magazine concerned with economic issues, they point out that the age and sex composition of the labor force has changed considerably over the past three decades. Since jobless rates vary by age, and to a lesser extent by sex, shifts in the relative im-

portance of these groups affect measures of unemployment.

From 1970 to 1995, for example, teenage workers, who suffer from unemployment, fell from 8.8% of the workforce to 5.9%. The labor-force share of men aged 45 to 64 declined from 20.1% to 15.1%, while the share of women aged 25 to 44 rose from 15.1% to 24.3%. These changes have tended to push down the reported jobless rate.

What would the unemployment rate look like if the age and sex composition of the workforce had remained constant since 1970—the last time the rate came in below 5% for several years? Horn and Heap estimate that it would be about 0.5% higher than today's official number. And that, they say, suggests that the threat of a rise in inflation is even smaller than most people believe.

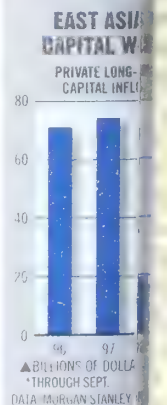
WHAT'S CRIMPING ASIA'S REVIVAL

Capital and consumption are

Judging by a number of positive indicators—international reserves, current account balances, inflation, and stock market gains—developing Asia has hit bottom. The problem, says economist Joseph Quinlan of Morgan Stanley Dean Wadsworth, is that the omens still don't point to a sustained upturn.

For one thing, investor confidence in the region, as measured by long-term capital inflows, is still lacking. Surging private capital flows to Asia (foreign direct investment, portfolio equity, commercial bank loans, and bond issues) collapsed from \$42 billion in the first half of 1997 to just \$13 billion in the first half of last year and showed no sign of reviving.

At the same time, surging unemployment and falling real wages are impeding any meaningful rebound in personal consumption, which accounts for more than 50% of output in the region. Without a pickup in consumption or in capital flows that could jumpstart investment, says Quinlan, developing Asia's economic recovery will remain problematic.



JAMES C. COOPER & KATHLEEN MADIGAN

HERE'S SOMETHING SCREWY ABOUT THE STRONG LABOR STATS

Wages didn't keep up with job gains—and that may spook consumers

U.S. ECONOMY

The December employment report should have carried a disclaimer attached to mutual-fund brochures: "past performance is no guarantee of future gains." The year ended 1998 with a bang, posting a larger-than-expected gain of 378,000, and the unemployment rate slipped to a 28-year low of 4.3%. The data sent analysts and Wall Street scurrying to rethink the year-end forecast. The Dow Jones industrial average rose 106 points on the day of the news to a record high, as investors once again bet that profits would meet their high expectations in 1999.

PERSISTENT TRENDS IN THE LABOR MARKETS



But beneath the headline-grabbing numbers lie several questions about just how much momentum the economy carries into 1999, especially now that a Brazilian currency devaluation threatens the global outlook (page 38). First, the Labor Dept. said unusually warm weather boosted construction employment by 104,000, the biggest gain in 14 years. That suggests the cold snap gripping most of the nation in January is holding down jobs in building trades and elsewhere this month. And December jobs jumped by an unusually large 59,000 in November.

IMPORTANT, and more troubling for the outside data indicated that wage growth is slowing. Measured by hourly pay for production workers, it rose 3.8% in the year ended in the fourth quarter, down from a 4.1% advance in the third and this year's peak of a 4.3% gain in the second quarter. However, the slowdown is evident in both manufacturing and service pay.

The idea that wage gains are slowing when only 4.3% of the labor force is unemployed seems impossible. Tight labor markets typically mean that businesses should be increasing pay raises to attract or retain workers.

Indeed, some special factors might explain the slowdown. The past hikes in the minimum wage are not included in year-to-year comparisons. And companies may be reclassifying jobs from production status to supervisory or management. The ratio of production

jobs to total payrolls has begun to edge down—something that hasn't happened since the last recession. If these reasons are skewing wage growth, then Labor's broader compensation measure, the quarterly employment cost index (to be reported on Jan. 28), will likely show wages are still accelerating.

But what if the wage slowdown marks an effort by companies to pump up sagging profits by lowering their labor costs? Such a strategy makes sense in an era of no pricing power and slowing demand, especially from overseas customers. And companies may still be attracting skilled workers by offering generous benefit packages. The rising benefits costs are then offset by holding down pay raises.

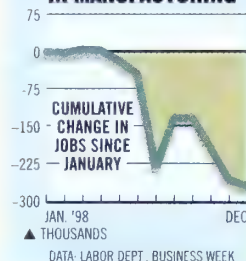
More data will be needed to sort out whether the wage slowdown is conditional or fundamental. But either way, economic growth seems destined to slow. If the wage slowdown is temporary, then consumers will benefit and continue to provide support for the economy. But profits, capital spending, and the stock market will still be at risk when wages pick up again.

If, however, the wage slowdown is structural, then companies may be able to lift their profit margins, a plus for stocks and business investment. But consumer spending will lose an important support: very strong income growth. Holding down pay raises is not as severe or newsmaking as layoffs, but its effect can be more widespread. Moreover, since consumer spending accounts for two-thirds of real gross domestic product, any buying slowdown will translate quickly to slower GDP growth. And if demand slows sharply, then corporate profits may still weaken even if margins improve.

FOR NOW, HOUSEHOLDS' real buying power is still rising, thanks to the increase in total employment and low inflation. And clearly, a lot of workers joined the labor force in December. The 378,000 gain to nonfarm payrolls, the largest since September, 1997, was almost twice expectations. And the hiring was widespread, with 59.3% of industries adding workers, up from 54.4% in November.

Manufacturers were still cutting positions (chart),

A WAVE OF LAYOFFS IN MANUFACTURING



however. That sector shed 13,000 jobs last month, bringing the total number of factory layoffs since January, 1998, to 267,000. But the factory workweek expanded by 12 minutes, to 41.8 hours. That's a good sign for industrial production and future employment, since factories that see an increase in orders typically extend the hours of their current workers before taking on new employees.

Private service companies created 231,000 jobs in December. Department stores hired clerks for the holiday rush, and temporary-help agencies added 27,000 workers, the biggest gain since August. In addition, the high pace of home buying and mortgage refinancings caused mortgage banks to add another 4,000 workers last month.

The growth in all nonfarm jobs in the fourth quarter averaged 264,000 per month. That's better than the 204,000 average of the third quarter, and it suggests that the economy once again expanded in excess of 3% in the fourth.

GIVEN THE STRONG JOB MARKET, consumers remained ardent shoppers at yearend. In particular, auto makers said that sales of cars and light trucks soared 12.4% in December, to an annual rate of 17.2 million (chart). That's the strongest month since 1986, but the Commerce Dept. cautioned it would likely adjust the number lower when it calculates the vehicle data that

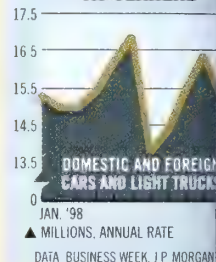
go into consumer spending in the GDP report. That cause dealers padded their December results with that actually occurred in the first few days of January.

And after pulling out of those showrooms in 1999, consumers drove their new vehicles to the best mall and shopped for post-holiday bargains. Various surveys indicate that store sales in early January were running about 2% above December's level.

For now, consumer confidence doesn't seem dented by a lot of the negative influences. The January sales rise came despite bad weather in parts of the nation, the impeachment trial in Washington, and U.S. bombing in Iraq. Such resilience prompts the question: What will curb consumers? The key determinants will be the same as they were in 1998—income growth and the stock market.

That's why the outlook for corporate profits remains crucial to the 1999 economy. Businesses are facing earnings squeeze. And since companies possess pricing power, making more money out of each sale may mean cutting the cost of producing that product, the biggest cost for the average company remains workers.

CAR SALES SURGE AT YEAREND



BRITAIN

IN A RATE-CUTTING MOOD

The Monetary Policy Committee has served notice that interest-rate cuts to avoid a recession will not be too little. But will they be too late?

The MPC's surprise quarter-point cut on Jan. 7, the fourth in as many meetings, dropped the policy rate to 6% from 7.5% in October. Plus, the action's accompanying statement acknowledged continuing international risks and less concern over domestic wage pressures, suggesting another cut in February. Analysts now expect the rate to fall to 5% or less by midyear, a faster pace of policy easing than earlier anticipated.

The problem: Recession has already taken hold in manufactur-

ing, which accounts for 20% of gross domestic product, while construction, retailing, and the broad service sector are softening. November manufacturing output slipped 0.2%, the fourth drop in a row, and three-month growth fell 1.1%, the worst in five years (chart). Moreover, output in the large service sector slid in December for a second straight month, based on the latest purchasing managers' survey. Economists expect fourth-quarter GDP, to be reported on Jan. 22, to have been barely positive.

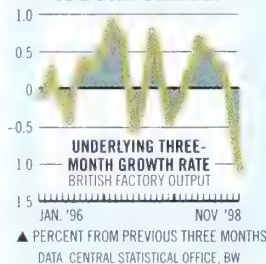
Britain's weakness stems from sterling's sharp appreciation since mid-1996 and the Asian crisis, which hit manufacturing. It's also

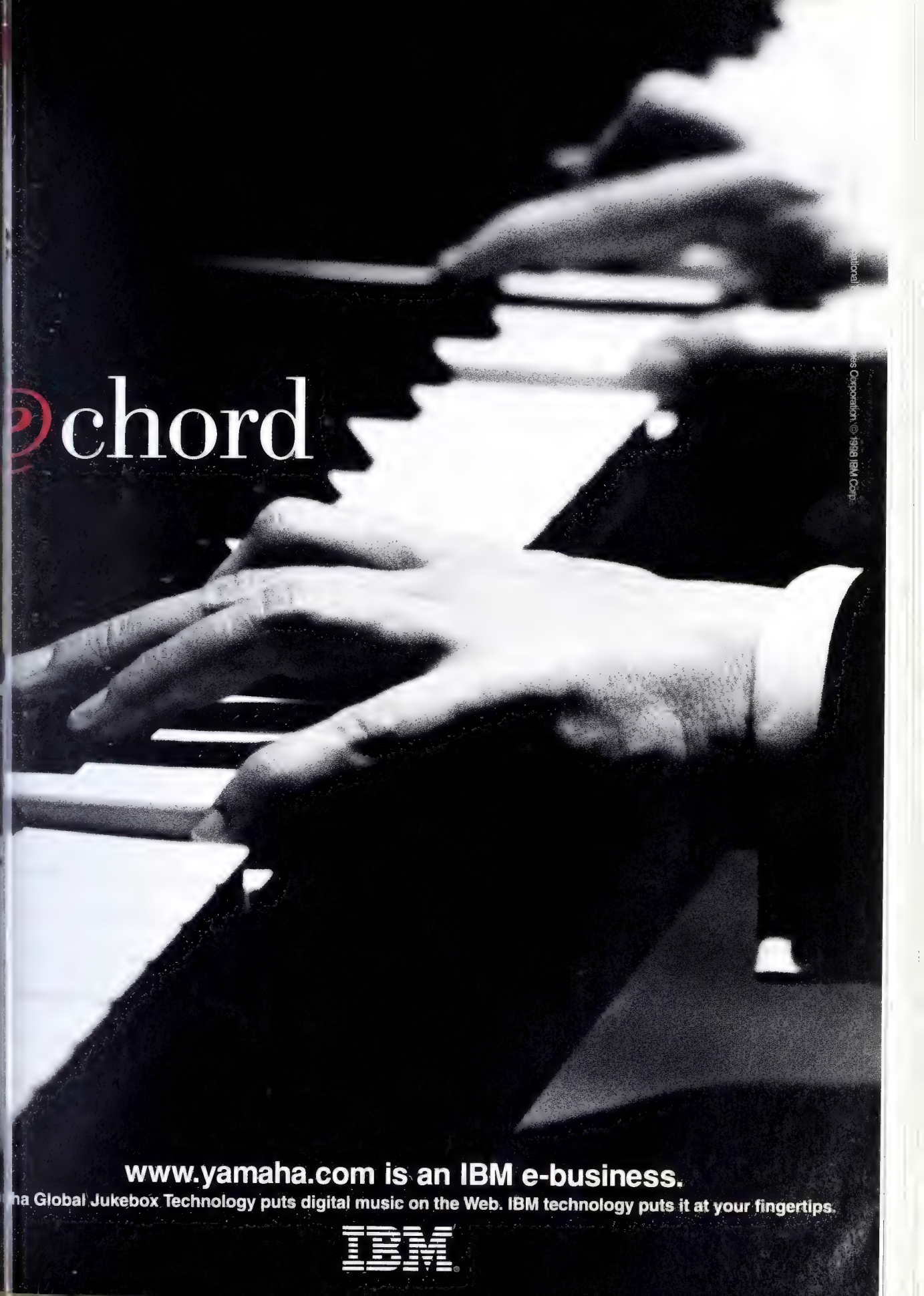
a delayed result of interest-rate hikes since late 1996. Rates are still twice the euro-zone level, and trade-weighted sterling is 18% higher than it was 1½ years ago.

So far, fears of outright recession are just that, especially given the surprisingly strong December report on the labor markets. Looking ahead, the currency should soften as the MPC narrows Britain's rate differentials with the U.S. and the euro zone. Also, the early benefits of recent rate cuts should kick in by spring.

The MPC seems to be moving rates to a "neutral level"—neither stimulative nor constrictive. That may be as low as 4.5%, but the MPC has the leeway to go that far. The 2.5% underlying retail inflation is within policy target, and core producer-price inflation, at -0.6%, is the lowest on record.

MANUFACTURING OUTPUT IS DOWN SHARPLY





 chord

International Business Machines Corporation © 1999 IBM Corp.

www.yamaha.com is an IBM e-business.

Yamaha Global Jukebox Technology puts digital music on the Web. IBM technology puts it at your fingertips.

IBM

THAT FRAGILE RECOVERY

Brazil's crisis was another blow. But this time, markets are relatively calm

It didn't take much. The news that the state of Minas Gerais in Brazil—a region few U.S. investors could find on a map—was balking at government austerity measures sent markets tumbling on Jan. 12. The next day, despite assurances by President Fernando Henrique Cardoso that Brazil wouldn't let a provincial default bust the national budget, the government bowed to the inevitable. The head of the central bank resigned, and Cardoso announced that Brazil would allow a controlled devaluation of the real, which promptly dropped 8%. Once again, the world was reminded that the recovery from the emerging-markets crisis remains fragile.

The good news is that after repeated scares, the markets weren't badly rattled by the Brazilian meltdown. The flight to quality that had suddenly shaved the yields on U.S. government securities just as quickly eased, relieving fears of a

return to the liquidity crunch that threatened global recession last fall. And stocks in the U.S. bounced back from what could have been an ugly sell-off. The Dow Jones industrial average closed on Jan. 13 off 125.12 after plunging 261 points early on, while the NASDAQ recovered from a 100-point fall to end the session down a mere 3.94.

Wall Street's rapid recovery may say more about how markets have learned to absorb global shocks than about the shocks themselves—and the very real risks they pose. The world has long expected Brazil to be the next financial shoe to drop, which is why the International Monetary Fund had cobbled together a \$41.5 billion package last fall to stabilize the country's economy. Still, the devaluation caught U.S. officials by surprise. Deputy Treasury Secretary Lawrence H. Summers, President Clinton's financial crisis point man, canceled a Jan. 13 trip to New York to manage the latest ordeal.

RIISING RATES. The markets' relatively calm reaction to Brazil's devaluation shows how much investor confidence has solidified since last summer and fall, when Russia's default on its foreign debts and the rescue of the massively leveraged hedge fund, Long-Term Capital Management, created a near panic. "As

WILL RATES STAY LOW?



far as financial earthquakes go, Brazil isn't as bad as the Russian crisis," notes David M. Jones, chief economist for Aubrey G. Lanston & Co., a New York securities trader.

Even so, Brazil's woes threaten the U.S. economy more directly than Russia's or Asia's. Brazil is the 11th-largest export market for U.S. companies. And U.S. bank exposure to Brazil through Sept. 30 was \$18.6 billion. That's equal to half of the outstanding U.S. loans to all of Asia, excluding Japan—which is why many investors and policymakers viewed a Brazilian devaluation as the potential trigger for spreading economic misery throughout the hemisphere.

That would be a sharp change from October, when the deepening global crisis had a perversely positive effect in the U.S. While exporters and domestic industries such as steel took hits, the flight of capital from Asia found a safe haven in the U.S. The result: a strong dollar, low inflation, and falling rates that kept growth rocking along.

Now, the U.S. could be in for a different scenario: a falling dollar, increasing inflation, and higher interest rates. Why? Forces in place before the Brazil shock are still at work and, unless the real goes into total free fall and takes down the rest of Latin America, these forces are likely to prevail.

What's different now is that capital has begun to trickle back to Asia, and investors are flirting with the new euro, which debuted Jan. 4, as a would-be reserve currency. In fact, the dollar fell by more than 1% against the euro on the day of the real's devaluation because of worries about the effect on the U.S.

But the biggest issue for the U.S. may be pressure on long-term interest rates. The 30-year Treasury had risen steadily from its low of 4.7% last October 5, and was as high as 5.37% just before the Brazilian devaluation. The crisis briefly pushed it down toward

5%, but it was climbing on Jan. 13 and ended at 5.13%. Some economists still see it rising more in 1999. "It can definitely break 6% if the recent trends we've seen continue," says John E. Silvia, chief economist for Chicago-based Kemper Funds.

A rate rise of that magnitude isn't about to stall the 93-month expansion, a peacetime record (page 39). But higher rates would mean a slowdown from the economy's current growth clip of nearly 4% and a further squeeze on corporate profits, which could slow the bull market's unrelenting runup.

WEAKER DOLLAR? Among those expecting a slower economy this year is Federal Reserve Chairman Alan Greenspan, who cut short-term interest rates three times in 1998 to keep the world financial crisis from spiraling out of control and dragging the U.S. economy down. In a Jan. 11 speech to a group of fellow central bankers in Hong Kong, Greenspan said that any slowdown would be only "relatively moderate," a hint that he sees no need for further cuts.

Though Greenspan spoke before the Brazilian crisis erupted, he's unlikely to change his views now, says Aubrey G. Lanston's Jones, a veteran Fed watcher. "I don't think Brazil will shake him the way Russia did," says Jones. "I wouldn't expect Greenspan to come running to the rescue with another rate cut." That's one more reason forecasters are raising their interest-rate projections.

After a year of handwringing over the Asian crisis and the prospect of a global slump, many economic forecasters are surprised by the jump in rates. But then, they didn't expect U.S. growth to be so strong in the fourth quarter. Nor did they anticipate glimmers of recovery in

BusinessWeek ONLINE

For daily business news, visit businessweek.com or AOL: Keyword: BW

AUG. 31
Dow plummets 512 points

SEPT. 28 Fed leads bank bailout of Long-Term Capital Management

OCT. 5 30-year Treasury hits all-time low at 4.76%

NOV. 13 IMF announces \$41.5 billion rescue package for Brazil

JAN. 8 Unemployment falls to 28-year low of 4.3%; Dow at new high: 9643.32



JAN. 13 Brazil devalues real; 30-year Treasury rate falls to 5.13%

AUG. 17
Russia defaults on its foreign debts

SEPT. 29 Fed cuts short-term rates to 5.25% from 5.5%

OCT. 15 Fed cuts again

NOV. 17 Third Fed cut lowers rate to 4.75%

JAN. 11 Yen hits 28-month high of 108.62

5.13

parts of Asia—particularly South Korea—and a falling dollar. These factors all put upward pressure on rates. “The days of the strong dollar are in the past,” predicts Joel L. Naroff, chief bank economist at First Union Corp.

With the U.S. expected to log a record current-account deficit of \$230 billion for 1998 and \$285 billion this year, Naroff’s forecast looks like a safe bet. Already, J.P. Morgan & Co. calculates that the dollar is down 9% on a trade-weighted basis from its August high. It has taken the biggest hit from the Japanese yen, which soared 32% in five months, to 108, until the Bank of Japan intervened on Jan. 12 by buying dollars.

But the dollar is also off 10% against non-Japanese Asian currencies and 7% against European currencies that now make up the euro, which some forecasters are betting will appreciate another 5% to 10% against the dollar.

The euro’s lure, along with the shift of funds to Japan has put the dollar in a “squeeze play” that’s driving up U.S. bond rates, says William H. Gross, managing director of Pacific Investment Management Co. in Newport Beach, Calif. But he adds that the higher yields won’t last unless inflation accelerates.

That is exactly what some economists now expect. More stable prices for commodities and imports, rising health-care

costs, and wage pressures across the economy should push U.S. inflation to a three-decade low of 1.5% in 1999, about 2.25% in 1999, predicts Wayne Angell, chief economist at Bear, Stearns & Co. Angell notes that two-year Treasury notes are already up nearly 1 percentage point, to 4.75%, since October. With the financial crisis spreading closer to the U.S., that would be such a bad scenario—even if longer rates are 0.5% to 1% higher.

By Owen Ullmann with Paul W. H. Nussan in Washington, and Stephen Anderson Forest in Dallas, Thane Peterson in Frankfurt, and Gary Sherman in New York

BRAZIL: ‘THE GENIE IS OUT OF THE BOTTLE’

President Fernando Henrique Cardoso had lost the real long before Brazil devalued the currency on Jan. 13. Months ago, his failure to carry out pledges to slash Brazil’s massive deficit spending had eroded Brazil’s credibility in world markets. Despite 30%-plus interest rates, few foreigners were willing to risk new investments in Brazil’s markets.

Now analysts expect the real’s fall to steepen. Signaling investor worries, São Paulo’s stock market plunged, and shares of foreign companies with big stakes in Brazil—including U.S. banks that as of Sept. 30 were in for \$18.6 billion—took a beating from New York to Madrid.

What next? A rapidly sinking real could ignite price increases, wiping out four years of gains under Cardoso’s inflation-busting Real Plan. The buying power of wages would plummet, hitting Brazil’s poor. And Brazilian companies with debt in foreign currencies could be devastated if the real keeps tumbling.

AFTERSHOCKS. The key in coming days and weeks will be the flow of capital. To slow the bleeding, Cardoso needs to show the markets immediately that he can get fiscal reforms through Congress. His goal is to cut \$23 billion in deficit spending, a condition for the \$41.5 billion Brazilian aid package led by the International Monetary Fund. More im-

portant, budget reform is crucial if Brazil is to regain investor confidence and halt the fall of its currency. “Unless the government gets fiscal results, no monetary plan will work,” says Mauro

Schneider, economist for ING Barings in São Paulo.

Again, the world is

watching warily for repercussions on other economies in Latin America. “Argentina is victim No. 1,” says Francis Freisinger, chief Latin America economist for Merrill Lynch & Co. in New York. “Undoubtedly, it will move into recession.” Brazil is Argentina’s top trading partner, so a weakening real will hurt Argentine exporters. U.S. companies that have big stakes in Latin America, such as consumer-goods giant Gillette Co. and energy company AES Corp., see their shares fall in the aftermath of the real devaluation.

U.S. investors may soon shrug off the new shock from Brazil, as they did last fall. But with each new crisis, both the country’s credibility and its options shrink. During the 1997 economic crisis in Asia, Brazil hiked interest rates and capital flooded back into the country. Now, Brazil has lost investor confidence and its favorite monetary tool—raising interest rates to entice capital.

The most likely outcome is that Brazil will fail in its attempt to control devaluation of the real by gradually shifting the band within which it trades. Eventually, Cardoso will probably be forced to accept free-floating exchange rates. “This is slow agony,” says Walter Molano, head of economic and financial research at BCP Securities in Greenwich, Conn. “The genie is out of the bottle.” And Brazil will feel the hex for months to come.

By Ian Katz in São Paulo



With devaluation of the real, Cardoso must cut spending faster to avert a meltdown

RACKING THIS CRAZY ECONOMY

Full of contradictions—but likely to stay strong in '99

MENTARY

Michael J. Mandel

a puzzlement. U.S. companies announced a record 678,000 job cuts in 1998, but the unemployment rate dropped to 4.3% in December, a 28-year low. Wages are rising rapidly, but inflation seems tame. Profits are up, but the stock market hit new lows in January. And even while teeters on the brink, Britain and Germany slump, and Japan is stuck in deep depression, the U.S. economy is growing.

What to make of all these conflicting signals? *BUSINESS WEEK Economics*

Michael Mandel explains these contradictions for the U.S. economy in 1999.

Most manufacturers continue to struggle, keeping driving the economy?

New Economic pain and sim- the face of a slowdown, the information sector in the U.S. has soared. In recent years, the health of the U.S. economy has come increasingly dependent on cutting-edge industries. For example, the information industries, broad-based, have for the first time become the biggest job creators in the economy. Over the past more than 37% of new jobs have come from information-related service industries, such as communications, education, software, consulting, and financial services (chart). By comparison,

these industries generated only 15% of jobs just three years ago.

High tech is also keeping U.S. factories afloat. Manufacturing production in the U.S. has risen by 2% over the past year—but without computers, semiconductors, and communications equipment, it would have fallen by 0.4%. And while consumers have been buying new automobiles and homes at a breakneck pace, demand for high-tech products and services such as computers and home-

phone service has also been soaring.

Last but not least, the high-tech boom is helping sustain the stock market as well. While old-line industrial companies such as Caterpillar, International Paper, and Procter & Gamble languish, big gains are coming from Intel, Microsoft, and Yahoo!

Sure, the high-tech boom may have lifted the U.S. economy in 1998. But everyone agrees that there is going to be a slowdown this year, don't they?

Most forecasters have been expecting around 2% growth in 1999. This gives them the virtue of consistency, since this was the consensus forecast for 1996, 1997, and 1998. But in each of these years, actual growth exceeded 3.5%.

The same pattern seems to be happening again. Many forecasters are already raising estimates for 1999. For instance, Richard Berner, chief economist at Mellon Bank in Pittsburgh, just boosted his 1999 projections from 2.2% to 2.75%. The main problem is that the forecasters have typically underestimated both consumer spending and capital investment. Companies keep spending on new equipment, says

Berner, "because capital is cheap and labor is expensive."

In particular, info-tech spending in 1999 could once more be strong. Intel recorded a 17% revenue gain in the fourth quarter of 1998, beating expectations. And global semiconductor sales jumped by almost 5% in November compared with October, the biggest monthly gain since 1990.

Moreover, workers in the information industries earn relatively high wages. So as long as the growth in these industries continues, Americans will have enough money to keep spending.

But the bad news from overseas seems to never stop coming. Can the U.S. keep growing even if the global economy slows?

The answer is yes—with caveats. The U.S. credit markets clearly are vulner-



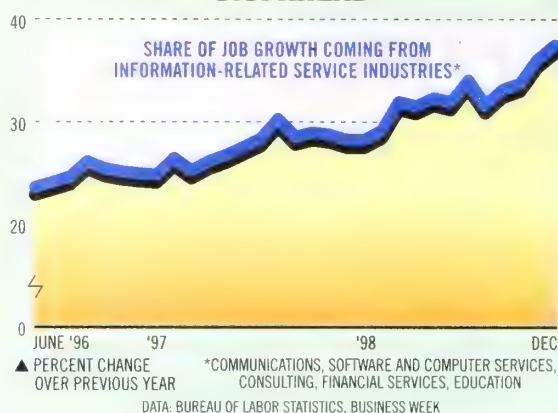
For the first time, information industries are the nation's biggest job creators, producing 37% of all new jobs

able to overseas shocks, as the events of last fall showed. And a sustained stock market downturn could hit consumer spending hard. Indeed, consumer spending is more sensitive to market fluctuations than before, since "the level of wealth relative to the economy has soared," says Chris Varvares, president of Macroeconomic Advisors, an economic-forecasting firm.

The immediate danger, of course, is Brazil, which devalued on Jan. 13, but that country is not the only potential trouble spot. Standard & Poor's DRI is now projecting that Japan's gross domestic product could shrink by as much as 3% in 1999. In Britain, manufacturing production is down by 0.2% over the last year. Meanwhile, new industrial orders are plummeting in Germany, and economists are talking about a manufacturing recession. "Manufacturing is being hit by the Asia crisis," says Gerhard Grebe, a Frankfurt-based economist for Bank Julius Baer.

But all of these problems are manageable—as long as they do not snowball into a global financial crisis. In 1998, quick reactions by the Fed and

HIGH TECH KEEPS U.S. AHEAD



other central banks, combined with international financial aid to troubled countries, helped calm the markets. Similar actions could be needed again this year.

Reports of layoffs and weak corporate earnings keep rolling in. Aren't they a sign that something is wrong?

In part, both the job cuts and the profits shortfall are a reaction to the global slowdown. Indeed, some government statistics suggest that the earnings de-

cline over the last year is completely due to a fall in overseas profits.

Domestically, corporations facing stagnant prices, combined with wages rising at a 3.8% rate, are in a tight spot. In this environment, the way to achieve higher productivity—to boost productivity—means job cuts and investment in new technology.

Will they succeed? That will be the biggest question of the year. Rising productivity will boost profits growing, boost the market, and fuel consumer spending—but if productivity stagnates, the economy will be hard-pressed to maintain its current momentum.

How long can this expansion last?

As of December, the U.S. passed the record for the longest peacetime expansion, with the historical data stretching back to the 1850s. The only one was the 1960s, which was good. Vietnam War spending. Barring a likely unraveling this year, the U.S. crosses that milestone on Jan. 1, 2000, a propitious date indeed.

Mandel is *BUSINESS WEEK* economics editor.

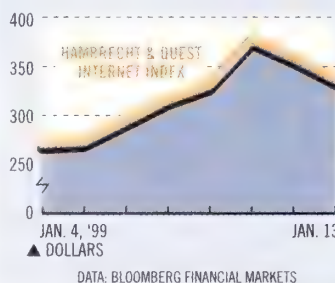
NET STOCKS: A SLIGHT CASE OF VERTIGO

For a fleeting moment, it seemed that the Internet bubble had finally burst. In the first week of January, Internet shares had once again astounded investors with massive gains—pushing the Hambrecht & Quist Internet Index up 100 points to a record 378.83. That's triple the level of the index just three months earlier. But on Jan. 12, Broadcast.com plunged more than 62 points and closed at 223. Ebay was battered down 51 points to 240%. Yahoo!, Lycos, and Amazon.com were also among the victims.

Still, as short sellers have learned the hard way, it's a sucker bet to try to predict when the Internet bubble will burst. The slide resumed on Jan. 13. Even Yahoo!'s surprisingly strong earnings of \$18.5 million for the fourth quarter and two-for-one stock split didn't stop its shares from declining further. Still, the dip left the H&Q index at 337.65, 11% off its high—and prompted more questions

from Wall Street pros. "Whether this is the final top, I don't know," says Peter J. Canelo, U.S. investment strategist at Morgan Stanley Dean Witter. "But if you have a historical perspective, you'll appreciate how much risk there really is." Canelo advises investors who have made money on these stocks to "take their chips off the table and let someone else take the doubles."

THE JANUARY EFFECT ON INTERNET STOCKS



That doesn't mean investors should shy away from all Internet stocks. Paul Cook, lead portfolio manager at the Munder NetNet Fund, says what may happen in Internet stocks is "a flight to quality." Experts say newer issues and companies that don't have a particular corner of cyberspace nailed down are especially vulnerable. Top-tier companies such as America Online and Amazon, Cook figures, will resume their ascent. That makes them too pricey. Cook recently trimmed his Amazon holding from 3% of the portfolio to 1%, "because right now it's extended."

Are there Internet stocks that could become bargains? In the short term, that doesn't look likely. But "there's a chance we might find one a year out," says David N. Dreman, chairman and chief investment officer of Dreman Value Management LP. By then, the Internet bubble could be just a memory.

By Edward C. Baig in New York



A WAYS TO GO

The foundations that own the Digest still have to be sold on the merger's merits

ownership to 50% by 2000 for tax reasons—there can be no deal now. They are chaired by former Digest Chairman and CEO George V. Grune. He and two other foundation directors sit on Digest's nine-member board.

Still, the foundations may sign off. Since they were set up in the

1950s and 1960s, the foundations have been major supporters of cultural institutions and various causes. But their giving ability has diminished along with Digest's profits. Although *Reader's Digest* remains the world's biggest-selling magazine, with circulation of 27 million, readership has been declining as its audience ages. The Pleasantville (N.Y.) company's stock is off almost 50% since the beginning of 1996. And since Ryder took over, he has slashed dividends by 78%. He also plans to cut expenses by \$350 million, and sold off much of the corporate art collection.

Analyst Dennis McAlpine of Josephthal Lyon & Ross Inc. says Ryder now has to figure out ways to increase revenues and target younger consumers. Merging with the Time assets, he says, "would be a great fit." Digest's direct-marketing business is twice as big as its magazine and that operation could be

used to market Time products as well. And the executives guiding the talks fit well, too. In his previous role as a senior executive at American Express Co., Ryder cut a deal that placed several AmEx-owned titles, including *Travel and Leisure*, under Logan's Time Inc. management.

To help assess their options, the foundations have enlisted Lazard Frères Co. The Digest is being advised by Goldman, Sachs & Co., and Time Warner has retained Morgan Stanley Dean Witter. A conclusion to the talks is likely by the Feb. 25 presentation. "I have been unusually focused on this strategic plan," says Ryder. But with the company's fate residing with the foundations that control it, even he can't know for sure which plan he'll be presenting that day.

By Richard Siklos in New York



DIGEST CHIEF THOMAS RYDER

IA

THE DIGEST OUT TO GET HITCHED?

Lagging company may combine with parts of Time Warner

netime this month, Reader's Digest Association Inc. had planned to unveil to Wall Street the final phase of CEO Thomas O. Ryder's program to revitalize the troubled publisher. But the unveiling has been pushed back to May because, says Ryder, "we're still in the process of working on it."

More then, Ryder could reveal a plan far more dramatic: Sources close to the companies say Reader's Digest and Time Warner Inc. are discussing a deal to combine Reader's Digest with several Time Inc. publications to create a direct-mail juggernaut capable of targeting millions of consumers world-wide with family-oriented fare such as Time-Life's '70s Party album or the Digest's consumer books. Time would also throw in The Month Club and several titles, including *Parenting* and *Home Accents*.

PARTNERS. Under the structure being contemplated, Time Warner would be an equal partner with the foundations set up by late Reader's Digest Chairman DeWitt Wallace that now control 50% of the publisher's voting shares. The foundations would own a yet-to-be-determined stake. Ryder, who joined

the company last May, would continue as the company's CEO, with Time Inc. CEO Don Logan as chairman.

Time Warner, Ryder, and the foundations won't comment on the talks. Sources close to the discussions say that although negotiations have been going on for months, they could still break off. The stumbling block seems to be convincing the foundations that ceding control to a joint venture with Time would be better than staying independent or selling out altogether.

Without the votes of the foundations—which plan to cut their

CREATING A JUGGERNAUT Likely components of a joint venture

FROM TIME INC.

- Time-Life Books and Videos
- Book of the Month Club
- Southern Progress magazines
- Specialty magazines like *Parenting* and *This Old House*
- Oxmoor House books

FROM READER'S DIGEST

- Reader's Digest Magazine
- Reader's Digest Books, Videos, Music
- Specialty magazines like *American Health* for Women, *American Handyman*

SOURCE: BW



THE MILLENNIUM

INSURED FOR Y2K? DON'T COUNT ON IT

Insurers are telling customers they're on their own

Linda Ferro, chief financial officer at Banner Service Corp., a family-run precision grinding company in Carroll Stream, Ill., is worried. Like thousands of other execs, Ferro has just learned that her company's existing business insurance won't cover anything that happens to Banner—or its customers—if the company's computers get fouled up by the Year 2000 computer bug.

Ferro thought Banner was covered

until its renewal arrived and spelled out Y2K exclusions. Now, she fears Banner could be stuck paying hundreds of thousands of dollars to defend itself in Y2K lawsuits from customers if the bug fouls up production or causes product defects. Banner could also be liable for safety problems inside the factory arising from Y2K glitches. "Initially, we thought insurance would take care of everything," Ferro says. "Now, our insurer is telling

FERRO: Cost of uninsured snafus "could be devastating"

us that on Y2K, we're on our own. It could be devastating." On the advice of lawyers, Banner is sending letters to customers, spelling out its Y2K contingency measures—but offering no guarantees against problems.

KEEPING MUM. Ferro has a lot of company. Corporations, homeowners, hospitals, and schools have been getting letters from insurers telling them they won't be covered for Y2K damage. "Generally, the Year 2000 problem is not an insurable risk," Travelers Property Casualty Corp. has told its agents and brokers in memos over the past few months.

Some insurance companies are taking the opposite tack—deliberately being mum about Y2K coverage. In "For fear of provoking an outcry," says Larry McArthur, president and CEO of Ascent Logic Corp., a San Jose company that helps insurers assess major corporations' risk of Y2K failures. McArthur says some companies believe it's better to hold those policies to find out what's covered and what's not.

Companies not sure of their coverage can imagine all sorts of Y2K nightmares. Consider Los Angeles-based Oakwood Corporate Housing, which manages apartment complexes in the U.S. and Asia. Oakwood doesn't know what kind of coverage it has for Y2K, and it's worried, too. "If there's a power failure, who's liable if a tenant dies or requires hospitalization?" asks spokesman Bob Philips. So far, the company has not purchased special insurance, but an in-house committee is looking into insurance issues, Philips says.

It's easy to see why insurers are reluctant to limit Y2K coverage. Whether homeowner, employee, corporate director, consumer, merchant—in short, anyone with a policy—could be affected by the bug. Lloyd's of London estimated last year that global claims could reach \$1 trillion—far surpassing asbestos and tobacco claims combined—and cost

Y2K UNCOVERED!

Insurance companies are limiting or excluding coverage for Y2K across the board

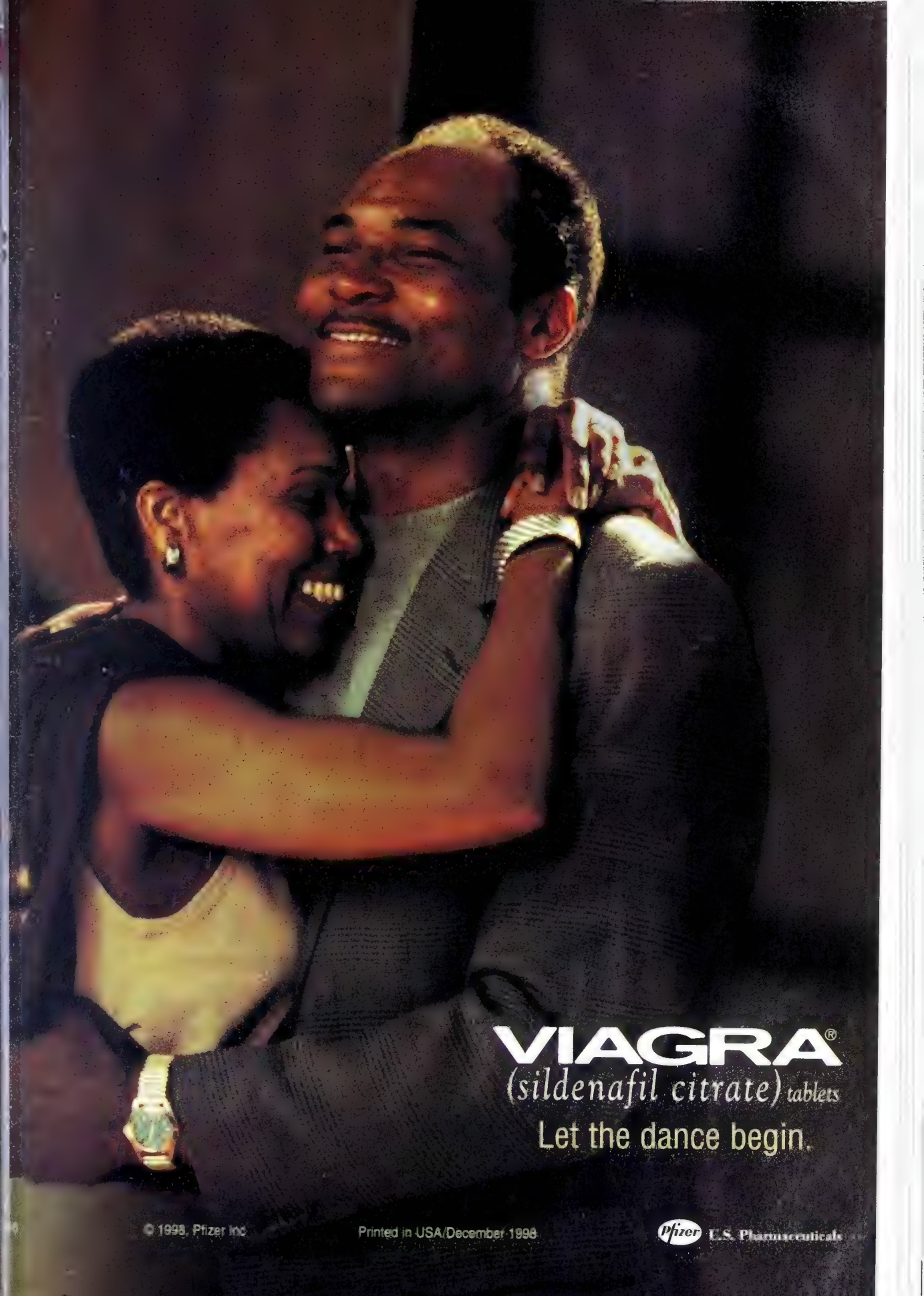
GENERAL LIABILITY Insurers are limiting coverage for third-party injury, breach of contract, or other damages resulting from Y2K, such as malfunctioning traffic lights and inoperable security systems.

PROPERTY Most policies exclude data loss, computer crashes, machine or equipment damages, or property loss resulting from a malfunctioning computer.

PROFESSIONAL Insurers are limiting or excluding damages resulting from Y2K-related shareholder lawsuits, medical malpractice, or other professional liability.

BUSINESS DISRUPTION Companies are limiting or excluding coverage for losses from supply or distribution delays, such as losses from food spoilage.

CONSUMER Insurers are backing away from covering home-business disruptions and property damage. Example: If a security system fails because of Y2K, stolen goods may not be covered.



VIAGRA[®]
(sildenafil citrate) tablets
Let the dance begin.

VIAGRA
(sildenafil citrate) tablets
Let the dance begin.

© 1998 Pfizer Inc. All rights reserved. U.S. Patent 5,229,471

Pfizer U.S. Pharmaceuticals

three times higher than the \$33 billion stashed in reserves by U.S. insurers for all property/casualty coverage.

To avoid that, insurers have been buying state insurance commission limit or exempt Y2K from various types of policies. So far, every state allowed at least some exemption. 46 now let companies exclude Y2K commercial property, homeowners' business interruption, and professional liability policies, such as medical malpractice. Says a spokesman for the American Insurance Assn.: "People have had a lot of time to make preparation. They should be responsible for making it rather than depending on insurers to bail them out."

A RULING SOON? It's still possible for companies to get Y2K insurance—a painfully steep price. David Rabinowitz, an insurance-law specialist and partner at Chicago law firm Arnstein & Lebowitz, says premiums can run as high as \$8 million for \$1 million of coverage. American Insurance Co. has a Y2K policy, no longer for sale, that covers up to \$100 million worth of coverage for a price of \$80 million, though it was that was refundable in the event a bug didn't amount to much in claims. But even high-priced coverage is appearing: CNA Insurance Group of Chicago, for one, plans to cut off its special Y2K policies in March.

Top execs and directors also may get Y2K coverage. AIG offers "D&O" coverage, a directors-and-officers policy that protects corporate brass from shareholder claims that they failed "to act or properly disclose" readiness for the new millennium. The policy even includes \$10,000 of public-relations help to "manage related disclosure."

Industry analysts predict the courts will ultimately settle the question of Y2K coverage. In the nation's first Y2K insurance case, Cincinnati Insurance Co. of Ohio is asking for a federal district court to rule whether the policy it sold to Source Data Systems, maker of bug-plagued hospital-management software, requires it to cover Y2K-related failures. A Source Data customer is seeking \$1.25 million in damages because its software can't recognize the year 2000, after Dec. 31, 1999.

But insurers, beware. A recent survey by Los Angeles-based Deloitte & Touche shows that potential Y2K cases are predisposed against insurers. Says Senior Vice-President Davis: "The widespread perception is that insurers should've addressed the problem in policies long ago rather than now to squeeze out of coverage. They figure it never hurts to try."

By Marcia Stepanek, with
Brady in New York and Ann
Palmer in Chicago

INGTON

AL GORE, CORPORATE AMERICA'S PAL

Can Vice break through business' distrust before 2000?

Of a sudden, Al Gore is everywhere. On Jan. 13, the Vice-President announced a plan to tame suburban sprawl. On Jan. 14, he proposed a private partnership to train workers for high-skill jobs in industries facing worker shortages. On Jan. 15, he unveiled a new Administration plan to spur development in distressed rural areas by doubling the number of tax-adjacent "empowerment zones."

With President Clinton's approval, Gore is preparing for what he considers his most important address: the Union address. The Vice-President has become the front man for the Administration.

It's not too soon. The Presidential election is less than two years away, and with the prospect of facing fund-raisers such as Texas Governor George W. Bush, prospective candidates are making sure he is—and actively reaching out to Corporate America. The White House wants to convince voters that the Vice President played a central role in the economic boom of the 1990s.

"The challenge is to get people to understand that we have been a full partner in economic policymaking," says University Law Professor Richard F. Edley Jr., a former White House policy adviser.

MARK RESPONSE. Despite his moderate roots, however, Gore is still seen by many as the environmental extremist of Republican caricature. Erasing that image among business leaders may not be an easy task after spending six years trying to reinvent himself. Gore is striving to reinvent himself. "The knee-jerk response to Al Gore originally was that he is an environmentalist, and any environmentalist has to be antibusiness," says Housing & Urban Development Secretary Andrew M. Cuomo, a Gore ally. "The truth is more nuanced." The truth, according to Cuomo, is that the Vice President is a pro-business centrist who

ing to reinvent himself. "The knee-jerk response to Al Gore originally was that he is an environmentalist, and any environmentalist has to be antibusiness," says Housing & Urban Development Secretary Andrew M. Cuomo, a Gore ally. "The truth is more nuanced." The truth, according to Cuomo, is that the Vice President is a pro-business centrist who



VISITING NAVY FAMILIES: Eco-zealot or fiscal disciplinarian?

served as the chief Administration proponent for fiscal discipline and trade expansion, even as he pushed for spending on the environment, education, and high-tech research.

Business lobbyists aren't buying that just yet. "The guy's a little weird," says Karen Kerrigan, president of the Small Business Survival Committee. "CEOs hear his talk about the combustion engine being the greatest threat to mankind, and it sends a jolt down their spine." Auto companies and old-line manufacturers view Gore as a Big Gov-

ernment activist. U.S. Chamber of Commerce Senior Vice-President R. Bruce Josten echoes the doubts of many executives when he says that Gore's perceived regulatory zeal would cripple companies by subjecting them to a "mandate-of-the-month club."

Like his boss, though, Gore has been popular in the high-tech community. "He clearly knows what he's talking about," says Jerry Yang, co-founder and CEO of Yahoo! Inc. Silicon Valley has yielded both support and campaign cash for Gore, who's no slouch as a fund-raiser.

GLOBAL SAVVY. Lately, Gore has been trying to expand his business beachhead. He began courting Wall Street last spring with a New York lunch attended by such financial heavyweights as Bankers Trust CEO Frank N. Newman, Lazard Frères CEO Steve Rattner, J.P. Morgan CEO Douglas "Sandy" Warner, and former GOP Commerce Secretary Peter G. Peterson, chairman of Blackstone Group. After the Asian economic collapse in November, Gore reconvened his Wall Street "kitchen cabinet" at the White House. Says Newman, a former Deputy Treasury Secretary: "He was able to dig into a pretty sophisticated discussion of many countries around the world."

To enhance these international credentials, Gore also plans to attend the Jan. 28-Feb. 2 World Economic Forum in Davos, Switzerland. There he'll discuss the impact of globalization on the international financial infrastructure.

Despite some progress, Gore faces an uphill struggle to win business hearts and minds. "He knows he's got a lot of work to do," says one adviser. But the Vice-President also knows that the economy could be his greatest asset in 2000—if he can just get some executives to pitch their dog-eared copies of his 1992 environmental tome, *Earth in the Balance: Ecology and the Human Spirit*, and let him turn a new page.

By Richard S. Dunham in Washington, with Linda Himmelstein in San Mateo, Calif.

"The challenge is to get people to understand that we have been a full partner in economic policymaking"

COMMENTARY

By Keith H. Hammonds

WHEN AN OUNCE OF PREVENTION COSTS TOO MUCH

Want to know why health premiums are heading up? In 1997, Kaiser Permanente spent about \$500,000 on anti-psychotic medications for its HMO members. Last year, with the arrival of Eli Lilly & Co.'s more effective Zyprexa, the tab soared to \$8 million. Xalatan, a hot new glaucoma medication, generated bills of \$7 million for Kaiser in 1998—up from \$400,000 for the drugs it replaced. "This is not sustainable," says David Campen, head of Kaiser's California drug formulary board.

It surely isn't—not for health insurers with chronically droopy profits, and not for society. Drugmakers are churning out a flood of expensive products and advertising them heavily. Patients want the new treatments, and their doctors are obliging. Pharmaceutical claims soared by up to 18% in 1998, says Merrill Lynch & Co. analyst Roberta Walter; in many plans, drugs account for 15% of total medical costs, up from 10% five years ago.

That's why HMOs are less than thrilled to see more pricey new treatments, such as Monsanto Co.'s Celebrex. It's the first so-called Cox-2 inhibitor for arthritis pain to win Food & Drug Administration approval. Although early trials are inconclusive, Celebrex and similar drugs are said to reduce the risk of ulcers compared with drugs such as aspirin. The catch: They cost up to 50 times more.

Are the new drugs worth the price? Ulcers are painful, surely, and sometimes lethal. Moreover, they can be expensive to treat: Monsanto estimates that for arthritis patients who get ulcers, insurers spend another \$2.30 for every dollar they spent on painkillers.

Yet only 6% or so of arthritis patients



drug-cost inflation. Under traditional insurance, most patients paid a large chunk of the list price for prescription drugs. In the advent of HMOs, however, brought popular pharmacy plans that allowed patients to pay just \$5 or \$10 per prescription, whatever the ultimate cost. Overnight, consumers became price-indifferent—and the demand encouraged doctors to overprescribe. "There's tremendous variability in the way physicians select drugs and the

SQUEEZED Drug-price inflation is outlandish, and HMOs can't afford to carry the entire burden themselves

ever suffer gastric bleeding. So Aetna, United HealthCare, and Wellpoint Health Networks have said that, for now, they either will restrict reimbursement for Celebrex to patients who actually get ulcers with other drugs or, in some plans, charge patients who choose it the highest copayment allowable. Kaiser says it is encouraging physicians to prescribe Celebrex narrowly.

The situation is a curious bit of backsliding: HMOs and drugmakers actually have common interests. Health insurers generally want doctors to prescribe more drugs, in hopes of deferring much higher expenses for surgery and other costly

treatments. Celebrex fits the bill, stopping ulcers before they happen. And more prescriptions would help drugmakers cover the huge research costs that go into new products.

But first, the health industry must correct the skewed incentives that kindled outlandish

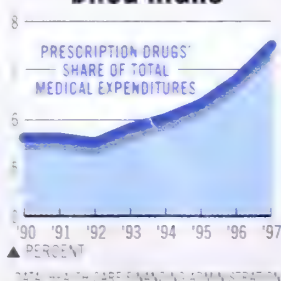
way patients respond," says consultant Marybeth Luptowski.

HMOs have tried to stem the tide by limiting which drugs they paid for. But such decrees alienate doctors and patients. And so far, HMOs have proven ill-equipped to micromanage doctors' prescribing patterns. Instead, more plans are guiding consumers toward lower-price drugs by setting tiered payments. For approved branded drugs, patients pay \$10 or \$15 per prescription. If they choose the generic equivalent, the tab is \$5. An unapproved product costs \$25 or more.

It's not a perfect arrangement. For patients with chronic conditions, so per prescription adds up quickly. But the alternative is unchecked demand and wasted resources. "Bringing in some accountability does bring the best of both worlds in terms of value and choice," says Nicholas A. Harshbarger, Aetna's head of pharmacy management. Consumers should enjoy the bounty of drugmakers' research labs—but they should help pay the way, too. Don't fault HMOs for trying to bring some sanity to the system.

Hammonds writes on social issues

DRUG HIGHS



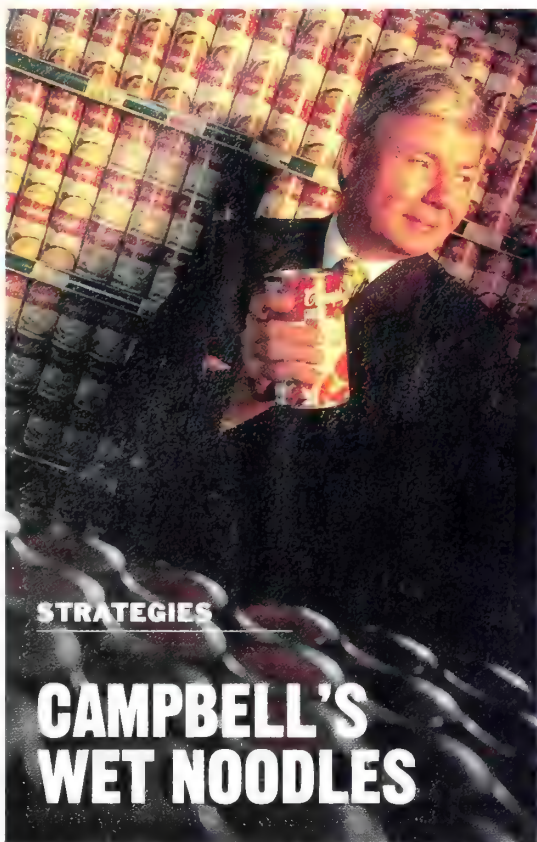
you@clubhouse.com
you@golfcart.com
you@fairway.com
you@sandtrap.com
you@sandtrap.com
you@sandtrap.com
you@19thhole.com



With PageNet® Two-Way, you can stay in touch with the office no matter where you are. Receive e-mails in the Pro Shop. Send an e-mail in the middle of the fairway. Get pages, news and market updates, or any piece of information that's critical to your business. For information, call 1-888-PAGENET.

PAGENET®

www.pagenet.com/2way



STRATEGIES

CAMPBELL'S WET NOODLES

Despite CEO Morrison's ambitious projections, earnings are disappointing

Dale F. Morrison loves to rally the troops at Campbell Soup Co. His advice: Set "big, hairy, audacious goals." Morrison certainly did. Analysts say he was aiming for long-term sales growth between 8% and 10% and increases in earnings per share in the low to mid-teens.

At least for now, those goals are too big and hairy even for Morrison, a former PepsiCo Inc. marketing executive who moved into the top spot at Campbell in 1997. On Jan. 11, Campbell announced that soup consumption would be lower than expected and earnings for the fiscal year, ending Aug. 1, 1999, would likely come in 18¢ to 23¢ per share below the \$2.13 Wall Street was projecting. Hating to be disappointed, the market knocked 13% off the stock price in one day, to 45%. Morrison was not available for comment.

Campbell is hardly the only food company with indigestion these days. Others, including Kellogg Co. and RJR Nabisco Inc., have had to shave earnings forecasts in the last six months as well. The common thread is mature markets and virtually no room to hike prices. Pru-

BRAGGING WRONGS: Morrison is taxed with overpromising

dential Securities analyst John M. McMillin says the 13 food companies he follows are generating sales growth of just 3% annually.

Morrison's big mistake, say analysts, was in thinking he could buck that trend. "They aren't the first [food company] with a headache," says McMillin. "But they said they were better than everybody else."

MEAGER. Meanwhile, trying for 4% to 5% growth in soup consumption, Morrison upped Campbell's marketing budget an estimated 10%, to \$800 million annually. But with such warm weather late last year, Campbell says U.S. soup consumption will be up a meager 1% to 2% for the company's current fiscal year.

A Campbell spokesman says the company isn't giving up on its long-term goals. And a change in how the company promotes to retailers could save

\$100 million annually. But Goldman, Sachs & Co. analyst Nomi Ghez says the key to its success is to stop overpromising. "They can have a good business even if soup grows only 1%," says Ghez. McMillin, however, thinks Campbell should consider linking up with another food company, perhaps Best Foods.

Morrison has more to worry about than Wall Street. Descendants of John T. Dorrance, the inventor of condensed soup, own more than 50% of Campbell stock. And, although Campbell director Philip E. Lippincott says there are no signs they want a new strategy, the Dorrance heirs have forced changes in the past. In 1990, they helped bring in Morrison's predecessor, David W. Johnson, who still serves as chairman. He developed a close relationship with them and pushed profits up mostly by cost-cutting. Morrison has had less time to cultivate family ties and little success boosting profits through top-line growth. That gives him a clear—if hairy—goal to shoot for.

By Amy Barrett in Philadelphia

The problem: Mature markets, and no room to hike prices

DEALS

LUCENT CLICKS WITH ASCEND

Can the new partnership take on Cisco in networking gear?

It's not as if Lucent Technologies were a 98-pound weakling. The spin-off rules in phone equipment. But in the market for data-network gear, it lagged far behind Cisco Systems Inc. That has changed, though. Jan. 13, Lucent bulked up with a \$8.5 billion deal to buy Ascend Communications Inc. Crows Lucent CEO Rian A. McGinn: "We're now the underdog leader in communications networking."

Well, getting there. Ascend is in two vital areas: gear that connects users to the Net and switches that route data across phone networks. But Lucent still owns the market for routers—computers that direct Internet traffic. Lucent has a different edge, argues J. C. Stanzione, chief operating officer. Lucent and the new head of the unit that will include Ascend: reliability. Service up to the standards of the phone system. "This makes things far more competitive for Cisco," concludes Theodore Theodosopoulos, an analyst at Ward Dillon Read.

KNOWHOW. Cisco is strongest with corporate customers. But \$8.5 billion has also begun to offer its way to phone and Net service providers such as AT&T and Sprint Corp. Cisco argued such customers are drawn to its product line—the result of multiple acquisitions—and its Internet know-how. "Lucent still doesn't have leadership in Internet technology," says Larry Head of Cisco's service provider unit.

The Lucent-Ascend deal won't hurt Nortel Networks. The Canadian giant bought Cisco rival Bay Networks last year for \$9.1 billion, but is still trying to swallow the data-network company. On Jan. 13, it said it will slash headcount by up to 10%, to meet the need to streamline operations.

3Com Corp., the No. 2 data network player, may get squeezed. The company, which leads in consumer products such as modems, says it has not lost ground in sales to Internet service providers. But with Lucent opening doors for Ascend, that could change. There's a new muscle man on the scene.

By Andy Reinhardt in San Francisco, with Peter Elstrom in New York

ED BY KELLEY HOLLAND

SEC IS LIVID R LIVENT

WAY IMPRESARIO GARTH Drabinsky's celebrated career went too far, according to the Securities & Exchange Commission. On Jan. 11, the watchdog agency accused the Livent founder and former colleagues of running a "multifaceted and pervasive accounting fraud" for eight years, ending only when new management took Livent last year and fired Drabinsky. The agency says that the ex-CEO and accounting staff inflated sales, revenues, and assets. U.S. Attorney for New York also weighed in with 16 counts of conspiracy and violations of securities laws. The SEC is seeking to

make Drabinsky an example of the SEC's intolerance of accounting fraud. Officials warn that Livent won't be alone for long. "Look for more to come," says SEC Enforcement Chief Richard Walker. Drabinsky calls the charges baseless.

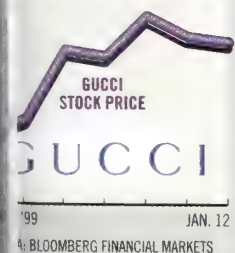
MINORITIES GET A WALL STREET BOOST

REVEREND JESSE JACKSON'S Wall Street Project is revving up. On Jan. 14-15, President Clinton and Treasury Secretary Robert Rubin were to join business luminaries at the project's second annual conference in New York. Clinton will propose measures, including investment tax credits, to boost investment in inner cities and depressed rural areas. Says Jackson: "Minority communities suffer a trade deficit with many companies in terms of how much of their products we consume and ... supply."

LOSING BELL

GUCCI COUP?

s of Italian luxury goods Gucci Group are as hot as the company's pricey shares. On Jan. 12, France's owner of Vuitton and luxury brands, announced it had paid \$398 million for a 5% stake in Gucci held by Maurizio Bertelli, CEO of Prada. Talk that LVMH's massing a further 10% stake had caused shares to soar 50%, to more than 74, in the first two days of January. Betting is high in Milan and Paris that chief Bernard Arnault will make a full bid for Gucci.



ZIPPIER WEB LINKS FROM AOL

TIRED OF WAITING FOR THE next screenful of data to come over the phone line? America Online is, too. On Jan. 13, the world's largest online service announced a deal with Bell Atlantic to provide fast AOL connections for less than \$20 extra per month. Bell Atlantic aims to make the service available to 7.5 million households by yearend and 14 million by 2000. AOL is expected to announce similar deals with U S West, Pacific Bell, and BellSouth. With its 15 million members, AOL can help jumpstart the Bells in their race against the cable companies to provide fast Web links.

eBAY CRACKS DOWN ON FRAUD

STUNG BY SOME RECENT deals that went bad, the

HEADLINER: BARRY DILLER

RETURN OF THE MOGUL

It was only a matter of time. Barry Diller, once chief of Paramount Pictures, wants to be in pictures—again. Three years after taking over the stumbling Home Shopping Network, the man credited with inventing movies of the week is looking for a bargain-basement way back into making films.

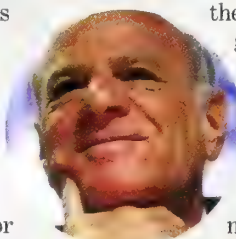
The maneuver is part of Diller's strategy to convert USA Networks into a media powerhouse. Within weeks, he is expected to buy from Universal Pictures the remnants of Polygram Filmed Entertainment, a maker of independent films such as the current release *Eliza-*

beth. On Jan. 11, his bid for October Films was rebuffed.

A Polygram deal would again put Diller across the table from Seagram Co. chairman Edgar Bronfman Jr. Intimates say Bronfman wants Diller to take Polygram off his hands for \$400 million. In return,

Bronfman, whose company owns 45% of USA, may drop its objections to Diller's plans for buying a television network, perhaps NBC.

Besides Polygram, associates say Diller is looking at the Bravo and Independent Film channels. They are perfect Diller acquisitions: cheap, with nowhere to go but up. *By Ron Grover*



online flea market eBay is cracking down. Only 30 out of 1 million transactions per month involved fraud—either buyers who wouldn't pay up or sellers who didn't really have the goods or who secretly bid up their own items. But CEO Meg Whitman concedes they've cast a shadow on one of the Internet's hottest companies. Starting on Jan. 15, the company is offering insurance on items under \$200 and an expanded escrow service to ensure payment on higher-ticket items. It also will suspend shills and deadbeats, and it will certify buyers and sellers.

BOFA: A PINK-SLIP BLIZZARD IS COMING

IT WAS A GOODWILL TOUR gone awry. BankAmerica Chairman Hugh McColl's four-day swing through California was intended to heal wounds stemming from

NationsBank's merger with San Francisco's Bank of America. But then came McColl's disclosure on Jan. 11 in San Francisco that the combined bank would eliminate as many as 18,000 jobs—10% of its current workforce—over the next four years. McColl said most of those cuts will come through attrition. But coming after the departure of many top ex-BofA officials, the news stoked fears of further job losses.

ET CETERA...

- Eli Lilly may be able to keep its patent protection on Prozac longer than expected.
- Intel's fourth-quarter net income rose 18%, exceeding expectations.
- Boston Celtics Chairman Paul Geston's partnership may up its stake in the team.
- Apple Computer's quarterly profits more than doubled, thanks to iMac.



**DOES YOUR INSURANCE COMPANY
TRAVEL IN THE RIGHT FINANCIAL CIRCLES?**

www.standardandpoors.com/ratings

When you're buying insurance, nothing is more important than choosing a secure insurer. Why? Because insurance is never a good buy if the insurer can't pay your claim or meet its financial obligations to you. How can you make a well-informed choice? Check to see if your insurer displays the Standard & Poor's Security Circle Icon[®]. Standard & Poor's, the world's leading financial rating service, is committed to excellence, integrity and objectivity.

**STANDARD
& POOR'S**

Our highly skilled analysts rate the financial health of thousands of insurers throughout the year. For an insurer displaying the Standard & Poor's Security Circle Icon means it voluntarily underwent our toughest review and achieved one of Standard & Poor's top four ratings for financial security. For you, it's simply the best way to make a well-informed choice. For up-to-date ratings, call 212-208-1527 or visit our website anytime.

A Division of The McGraw-Hill Companies

BY DOUGLAS HARBRECHT

WHITE HOUSE 2000: DO YOU WANT OUTSIDERS? WE GOT OUTSIDERS

loathe Washington. Their favorite word is "reform," in chucking the tax code and limiting special-interest money in politics. They're mapping insurgent campaigns—guerrilla strikes that substitute big attitudes and big-as-for fat media budgets.

Arizona's John McCain, lone-wolf GOP senator, and former New Jersey Senator Bill Bradley, restless New Democratic guys want to be your President. No, seriously. McCain is a quirky populist-conservative who blasts the

bureaucracy even as he expands its power to fight. Bradley is a wonkish who reveres the New Deal—but also frets about inequality. When they float presidential bids recently, people snickered. But will they be laughing in 2000?

Chances of McCain or Bradley getting through seem remote to that's only if your 2000

smugly assumes a dead-catch duel between Vice President Al Gore and Texas Governor George W. Bush. Voters sickened by Washington's sleaze wars, self-styled outsiders could catch fire. If you don't think so, just repeat "For Ventura" a few times.

BERS. Bradley and McCain aren't alone in running for Sin City. Publisher Steve Forbes is back with his "millionaire populist" shtick. And backers of the newest GOP potential wannabe, Elizabeth H. Dole (page 81), say even the *grande dame* of the Watergate complex will cast herself as an intraditionalist. "Elizabeth's candidacy will scream 'reform,'" says former Bob Dole pollster Tony Fabrizio, "because she's not part of the [male] club."

When it comes to antipolitics, McCain and Bradley are in a league of their own. The Arizonan butted heads with fellow outsiders over his pork-barrel hit lists, the tax hikes in his

antismoking bill, and his calls for campaign-finance reform. "People are looking for somebody who's independent," he says, "somebody who will combat inside-the-Beltway interests who have too much power."

Former Knicks star Bradley was never comfortable in his senator's wingtips. Before he called it quits in 1996 by famously declaring that "politics is broken," he riled conventional Democrats with his commitment to free trade and tax reform. "I'm going to talk about 'people issues,'" he says, citing education, health reform, and child care among them.

Pollster Frank Luntz calls them "the Un-Colas"—guys who consciously run unconventional campaigns. But skeptics aren't awed by the populist fizz, citing the traditional woes of mavericks—lack of money and a grassroots organization.

The inside-outsiders are working on that. McCain has hired operatives from the '96 Presidential campaign of Senator Phil Gramm (R-Tex.). Fund-raising whiz

Carla Eudy is his top catch. McCain's targets: nostalgic Reagan voters, execs who admire his stellar war record, and Sun Belt iconoclasts. Bradley has always been boffo in the boardroom. He appeals to Northeastern moderates, independents, and Jewish voters. His financial angel, Salomon Smith Barney Managing Director Louis B. Susman, will plug Big Bill into Wall Street's big bucks.

The "in" crowd's take? "I like McCain and respect Bradley, but I'm dubious," shrugs GOP theorist William Kristol. "Their supposed radicalism titillates the Establishment, but it really pales next to Ronald Reagan's bold conservative agenda."

If Kristol's right, Bradley and McCain will still be outsiders on Election Day. If he's wrong, one of these mavericks could be tethering a white horse outside 1600 Pennsylvania Avenue—and chuckling at the myopia of the chattering classes.

By Lee Walczak and Richard S. Dunham



GOOD TIMING? McCain (above) and Bradley



CAPITAL WRAPUP

TRACK FOR BANK REFORM?

Ionica-weary Washington, Senator Phil Gramm figures that the first step to produce a serious piece of legislation will earn his colleagues' gratitude. So the pugnacious Republican, who took the Seniors Committee's helm from the late Alvin J. Karpis (R-Ill.), plans to whip the long-stalled bank-overhaul bill into shape and bring it to the Senate floor by late January.

Gramm's fast-track approach

force banking, securities, and insurance interests to set aside the ancient feuds that have stymied financial reform for more than a decade? The key likely will be a deal between the Treasury Dept. and the Federal Reserve on which will oversee the new financial-services giants. After meeting with both Treasury Secretary Robert E. Rubin and Fed Chairman Alan Greenspan, Gramm hints he has a compromise in mind: Rather than approving a holding company's new financial activities in advance, the Fed could step in only if a venture got into

trouble and threatened to take banks down. "The Fed can prevent systemic risk without being a super-regulator," says a Gramm aide.

Industry experts wonder if it will fly. Greenspan wants to be sure he'll have the clout to deal with meltdowns such as Long-Term Capital Management's. And big securities firms want the Fed's imprimatur to gain credibility for their operations overseas. Still, Gramm's eagerness to broker—and his skills as a legislative tactician—could help pull off a banking deal in 1999.

By Mike McNamee

November 3, 1998, 3:06 a.m.

A Dell customer checks the status of her order at the company's Web site, and finds her answer immediately. Dell gets one happy customer.

Incidentally, 400,000 Dell customers check their orders at the company's Web site each month.





A few more examples
of commerce solutions
in action:

barnesandnoble.com
offers online shoppers
split-second searches
and inventory status
on millions of books.

dodieBauer.com
features personal
wish lists, a reminder
service for important
dates, and more
products than their
largest print catalog.

starbucks.com is a
new way for Starbucks
fans to experience
the coffee, company,
and culture of Starbucks.

Microsoft built its commerce solution on a Microsoft® platform of Windows NT® Server and the Microsoft Office® family, because the products scaled easily to meet its growing capacity needs and its \$2 billion in annual online sales. You, too, can quickly build a commerce solution on this scalable, flexible platform starting with many of the systems you already have, along with an industry of partners, to address your specific needs. To find the right partner who can best help you, or to get the free Digital Nervous System: Commerce Solutions CD, visit www.microsoft.com/dns

Microsoft

Where do you want to go today?

SOUTH KOREA

IS THIS RECOVERY FOR REAL?

Investors are back, but ordinary citizens are still feeling lots of pain

It's sale time at Seoul's cavernous department stores, but the crowds aren't buying much. "I'm just browsing so I can haggle for a better price at another outlet—if I decide to buy at all," says 27-year-old Nam Chang Soo as she eyes a discounted television set at Lotte Department Store in downtown Seoul. "The news says the economy is picking up, but ordinary people like myself don't believe it."

If only Ms. Nam strolled over to the Seoul stock exchange, she would see where the real buying is going on. A year after global investors fled in panic from Korea, they're back, snapping up shares of local companies and fueling a 100% rise in the Korean stock index since early October. The brokerage firms are churning out reports listing Korea's gains under President Kim Dae Jung—a surge in the trade surplus, record foreign investment, and a spate of upgrades from the credit rating agencies. Backwash from Brazil's devaluation may cool Korean and other Asian exchanges for a bit. But any pause is likely to be only temporary, given the optimism about Seoul's reforms. Says Stanley Fischer, deputy chief of the International

Monetary Fund, "There is no question Korea is turning around."

Clearly, there's a disconnect between how ordinary Koreans see their economy and what the market thinks of the country's prospects. But this may be one of those moments when both average folk and market pros are right. Korea is indeed recovering. Yet it's a pitiless recovery that will not swiftly reduce joblessness—it may even increase it. Like the former communist countries of Eastern Europe, which now produce high growth rates but still suffer from high unemployment, Korea is embarking on a difficult transition that will produce plenty of fresh growth, but also pain and turmoil for the working class.

The astounding gains of the last few months are giving investors momentary confidence that Korea will stick with this difficult course. The country enters 1999 with a healthy current account surplus of \$39.9 billion, and the won has strengthened dramatically. A record trade surplus guarantees that there will be no repeat of Korea's near-default on its foreign debt last year.

DRAMATIC CONTRAST. Just as encouraging, in 1998, foreign investment hit an all-time high of \$8.8 billion. The flood of cash allows companies to repay domestic and foreign debt, while the presence



Sacked blue-collar workers could revolt if they see the

re foreign shareholders will dilute ownership of management, which for has ignored shareholder rights. Investment is expected to hit a low this year, helped by signs that sovereign credit ratings will be upped to investment level.

Meanwhile the big *chaebol* have recently acceded to government-brokered deals like Samsung Co.'s divestiture of its car company and the merger of Hyundai Group's and LG Group's chipmaking businesses. News of these deals stands in dramatic contrast to the poorly managed auction of bankrupt Kia Motors Corp. last fall.

What really gives investors heart is the prospect of some heavy U.S. investment in the financial sector. The government's promise to sell debt-heavy Korea First Bank, which has \$27 billion in assets, to GE Capital and Newbridge Capital Ltd., signals that more big banks and insurance firms may end up in foreign hands. A foreign buyer for Seoulbank, where performing loans make up 16% of the portfolio, should be found by the end of the month.

These deals mean the money-starved banks will get billions in fresh capital. Important, says analyst Joydeep Roy of Standard & Poor's Corp., is the effect of a U.S. presence in the banking sector. In Latin America, the takeovers of some key local banks improved the financial industry by introducing better technology, sound lending policies, and real consumer service. The hope is that the same will happen in Korea, whose sick banks triggered the crisis in the first place.

Foreign-run banks will also avoid the disastrous loans to the *chaebol* many of which have accumulated losses four times greater than equity. Already, President Kim has strained the ability of the *chaebol* to dominate the credit markets by limiting the number of *chaebol* that local mutual funds and in-

vestment firms can hold. "That was a critical move," says G. Paul Matthews, president of Matthews Korea Fund, which had a 96% runup in 1998. "Korea's capital markets have changed more in 15 months than they did in the previous 15 years."

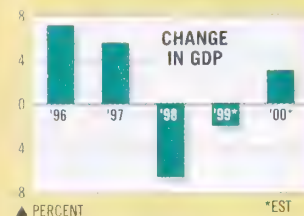
The optimism stemming from these developments has prompted the Bank of Korea to revise its growth forecast upward from zero growth to 3.2% this year. Even George Soros, once the scourge of Asian markets, may be considering a large stake in Seoul Securities. Economists also note that Korea is well-positioned to profit from any upward swing in semiconductor prices, while exports in steel and autos have been surging.

"HOLDING BACK." This is all good stuff. But it's not going to make any immediate difference in the lives of ordinary Koreans. They are still fearful of joining the growing ranks of the unemployed, which should reach 8% of the workforce this year, up from 2% in 1996. These frightened workers are not in a mood to spend money. Kodak Korea Ltd., like most foreign companies, saw its sales drop 30% last year and does not look for much of a rebound in 1999. "Consumer demand has not picked up yet. They're holding back in case it gets worse," says President John C. Bay.

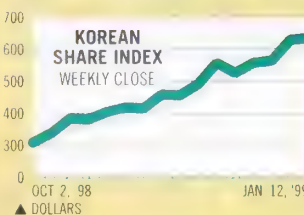
Labor strife is the sleeper the government fears most. Quiet for most of the last few months, unions recently rallied over a planned business swap between Samsung Motor and Daewoo Electronics. More dramatic labor protests could still spook overseas companies. "Foreign investors are not entirely sure the government has resolved the labor issue," says Kim Ki Hwan, South Korea's roving ambassador for

KOREA RISING?

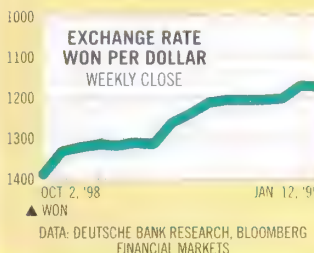
THE ECONOMY IS SHRINKING LESS...



...STOCKS ARE TAKING OFF...



...AND THE CURRENCY IS SURGING



economic affairs. Sacked blue-collar workers may revolt if they see the middle class escape with mere wage cuts, and street rallies by angry unemployed would put a dent in Seoul's carefully calibrated recovery plan. Policymakers are ready to tough it out, so confrontations are inevitable. "We cannot delay economic restructuring over fears about unemployment," says Hyun Oh Seok, director of economic policy at the Finance & Economy Ministry.

Labor unrest, low consumer confidence, and further foot-dragging by the *chaebol* could slow the recovery. The *chaebol* are still masking many of their debt problems by raising funds through rights issues. Asset sales would boost efficiency, but the top *chaebol* are mostly choosing to hang on to the family

silver. Despite the planned sale of Korea First, "foreigners aren't interested in most of the assets they want to sell," says Namuh Rhee, head of research at Samsung Securities. Return on assets in corporate Korea remains very low, a sign that companies are still running a lot of unproductive factories.

The difficult truth is that Korea has plenty to fix before it emerges whole from the crisis. The process will take years, maybe even decades, and will proceed in fits and starts. But when Korea called on the International Monetary Fund for help in December, 1996, plenty of market observers thought the country would never recover and that its political will to change was nonexistent. Now investors are delighted at the country's progress, and they are willing to bet that Korea will show more signs of resilience. As they cheer Korea on, they are hoping the rest of Asia will follow its example.

By Jennifer Veale in Seoul

le class survive restructuring with mere wage cuts



A MOBILE COLOSSUS

- A cellular market leader in Britain, with estimated 1998 sales of \$5.5 billion and earnings of \$1.45 billion.
- A global portfolio with operations and partnerships in northern Europe, expanding to the Mideast and Pacific.
- CEO Chris Gent focuses on high-margin business customers. Vodafone is often profitable in new markets within a year.

BEFORE GENT TOOK OVER AS CEO IN EARLY 1997, VODAFONE SEEMED TO BE LOSING GROUND



GLOBAL STRATEGIES

HOW VODAFONE AIMS TO RULE THE WIRELESS WORLD

The AirTouch bid is just one step in its plan for dominance

As a public-relations stunt, it would have been a tad heavy-handed. But there was Vodafone Group PLC Chief Executive Chris C. Gent, orchestrating the biggest merger in the history of the mobile phone industry—via cell phone from Australia. It started over New Year's weekend, when word got out that Bell Atlantic Corp. was offering \$45 billion for AirTouch Communications Inc., the largest independent U.S. mobile company. Gent didn't fuss with flights back to London. He pressed the call button and started talking. By Jan. 3, he had put together his own \$55 billion stock and cash offer for AirTouch.

If it goes through, as analysts expect, Vodafone, Europe's leading mobile phone company, could become the first global giant of the wireless age. "Sizewise, nobody else would come anywhere near," says Jonathan Lewis, a Dresdner Kleinwort Benson Inc. telecom analyst. The combined company would have sales of \$10 billion and a market capitalization of \$105 billion, making it No. 3 in Britain. More important, by consuming AirTouch, which is strong in Europe's booming south, Gent would enjoy supremacy in Europe's cellular-phone market, the world's biggest. He would also acquire 8.5 million U.S. customers in California.

But Gent faces a host of technical challenges. In the next three years, communications devices, from computers and televisions to mobile phones, are expected to converge, all offering the

same host of services. For Vodafone and other cell-phone companies to justify their stock valuations, Gent and his competitors must expand from voice into the potentially rich data side of the market. Cell phones, in short, must push their way onto the Internet.

At the same time, with or without AirTouch, Gent will have his work cut out keeping his company independent. A takeover would be pricey. But in today's merger mania, size is no longer a surefire defense. "I see Vodafone as a target for somebody who wants to get into the wireless world," says Linda Barrabee, a researcher at Pyramid Research in Cambridge, Mass.

Vodafone's European roots give Gent a technical edge over American competitors such as AT&T and Sprint Corp. That's because the next generation of cell phones will probably hit Britain by 2001—a year or two before reaching the U.S. Users will be able to send E-mail, download compact discs, and even video-conference. But for Vodafone and other cell-phone operators, the switch to the so-called third generation requires multibillion-dollar investments on licenses and infrastructure. Gent is determined to spend it, even with only the sketchiest notion of return.

A similar dive into an untested cellular market gave Vodafone its start 16 years ago. The military electronics company landed Britain's first cellular license in 1983 and on Jan. 1, 1985, sent the first

call from Trafalgar Square to corporate headquarters in Newbury, 50 miles away. A day later, Gent, a computer industry executive, joined the company.

Vodafone's initial public offering in 1988 raised funds to stave off challenges from British Telecommunications PLC's mobile operator, Cellnet. Vodafone was able to battle the old giants on speed and focus. Still, Vodafone seemed to be losing ground to aggressive newcomers when Gent took over as CEO in early 1997. He canned the old ad campaign and set about building brand recognition that would keep customers, especially business users, loyal to Vodafone.

CELL-PHONE MANIA. Gent's timing could not have been better. In the last few years, the combination of lower prices and a booming economy have fueled cell-phone mania in Britain—a phenomenon that Gent and others expect to hit the U.S. soon. Last year in Britain, subscriptions grew by 53% to 10 million, or 22.4% of the population.

Vodafone is seeing explosive growth in its 13 other markets as well. Double-digit growth is the rule in its joint ventures from the Netherlands and Germany to New Zealand. And its fabulous earnings and stock growth placed it at No. 1 on BUSINESS WEEK's IT 100 last fall. In 1997, the company earned an estimated \$1.45 billion on sales that grew 4% to \$5.5 billion. Vodafone shares advanced 143% in the last 12 months.

Vodafone and AirTouch know each other well. They are partners in a Swedish joint venture and were considering a merger last summer, says Lewis, but could not settle on a price for them. And for Chris Gent, the first step toward leading the wireless world was simply a matter of picking a cell phone and putting it to use.

By Stephen Baker in Paris
Kerry Capell in London

men will have an isolated erection problem at some time in their lives, but for others it happens more frequently. If the ability to respond naturally to your partner has become a recurring problem, you may be suffering from a treatable medical condition called *erectile dysfunction (ED)*, also known as *impotence*. The following questions and answers are designed to give you a brief introduction to the causes of ED and the various treatment options available. If you believe you are suffering from ED, or want to know more about the condition, talk to your doctor or other healthcare professional.

Erectile dysfunction: what every man should know

What is ED?

Erectile dysfunction is the consistent inability to achieve and/or maintain an erection sufficient for satisfactory sexual activity. That means not just an occasional problem, but one that has been occurring repeatedly for a significant amount of time. It's a widespread condition, shared by approximately 1 in 10 men in the United States.

What causes ED?

It is once believed that ED is all in your head, or just an inevitable result of growing older. Actually, the majority of ED cases are associated with underlying medical conditions or events, including some that are age-related. The most common risk factors for ED include:

Diabetes, high blood pressure, hardening of the arteries, high cholesterol

Heart disease or illness, such as spinal cord injury, multiple sclerosis, depression, stroke, or surgery for the prostate or colon

Medications that may bring about ED as an unwanted side effect

Cigarette smoking or alcohol/drug abuse

Psychological conditions, such as anxiety and stress

To find out more about ED, talk to your doctor.

Can erectile dysfunction be treated?

The good news is that, regardless of the cause, the vast majority of ED is treatable. Patients have a variety of treatment options from which to choose, including oral medication, hand-held vacuum pumps, self-injected injections, pellet suppositories, and surgical implants.

Can anyone use these treatments?

It's important to remember that these treatments are not for everyone, but only for men diagnosed with ED. You and your doctor can determine the appropriate treatment for you. Because sexual activity can be demanding on the heart, you should talk to your doctor before using any treatment for ED.

How do I know if I have ED?

If you have erection problems, you probably already know it. But before you can have your condition treated, you need to be diagnosed by your doctor. There is no need to be embarrassed or ashamed when discussing ED with your doctor. He or she has probably diagnosed and treated ED many times. Your doctor can provide you with understanding, support, and best of all, the information you need.

To diagnose ED, doctors typically ask a few specific questions and give a routine physical exam. This should help your doctor arrive at a diagnosis. Before starting any treatment for ED, ask your doctor if your heart is healthy enough to handle the extra strain of having sex.

Based on this information, you and your doctor will decide on the treatment that is best for you.

REMEMBER:

ED is a common medical condition.

It's not an inevitable result of growing older.

ED is treatable with a variety of methods.

Only your doctor can prescribe the appropriate treatment.

If there's the tiniest little hole

 Bugs from the Internet to your PCs.

THE INTERNET IS TO THE COMPUTER VIRUS WHAT THE AIRPLANE IS TO THE BIOLOGICAL VIRUS: IT TRAVELS AROUND THE WORLD, AND IT'S POPULATED BY EVERYONE, HEALTHY OR NOT. THAT'S WHY MCAFEE TOTAL VIRUS DEFENSE (TVD) FENDS OFF VIRUS ATTACKS ANYWHERE THEY

HAPPEN ON YOUR NETWORK, USING A MULTI-LAYERED DEFENSE AGAINST THE SCUMBAGS, HACKERS AND MALICIOUS CODE CRACKERS OF THE WORLD.

 Up-to-the-Minute Extermination.

WITH OVER 400 NEW VIRUSES FOUND EVERY MONTH, YOU'RE EITHER UP-TO-DATE WITH ALL YOUR VIRUS PROTECTION, OR YOU'RE TOAST.

MCAFEE TVD KEEPS PEOPLE YOUR COMPANY UP-TO-DATE A MINIMUM OF HASSLE, E UPDATES TO YOU AUTOMAT OVER THE INTERNET, BE KNOW YOU HAVE THE LAST GREATEST. NO WONDER TO ON MORE THAN 60 MILLI PUTERS AROUND THE GLO

ur net, they'll find it.

N
e
t
T
o
o
l
s

McAfee Total Virus Defense

PGP Total Network Security

Secure Mail Network Utility

Breed Meets Integration.

ING ANTIVIRUS TECH-
INTEGRATED WITH COM-
ATING, ALERTING AND
AND IT'S ALL BACKED
AGENCY RESPONSE TEAM
ONDS TO NEW VIRUSES
OW THE SUN" COVERAGE
ITES ON 6 CONTINENTS.

IT'S NOT JUST THE BEST DEFENSE;

IT'S THE BEST OFFENSE, TOO.



Kill Bugs Dead.

CALL 800-332-9966, DEPT. 1949,
FOR OUR WHITE PAPER ON MULTI-
LAYERED DEFENSE. OR VISIT US
AT WWW.NAI.COM. THEN GO GET
THE BEST IN PEST CONTROL, WITH
MCAFEE TOTAL VIRUS DEFENSE.

Allegis Total Service Desk



network
ASSOCIATES

Who's watching your network

COMMENTARY

By William Echikson

IT'S TIME FOR THE EC TO TACKLE CORRUPTION

For years, corruption has been the European Union's great open secret. Periodically, flaps have broken out—the European Commission would be accused of giving double subsidies to Irish sheep farmers or handouts to non-existent Italian olive orchards. But Brussels bureaucrats looked the other way. No one wanted to admit that agricultural subsidies often covered political payoffs. In Italy, for example, the money may have ensured support of politicians who endorsed a united Europe, a goal high on Brussels' agenda.

Now, with the successful launch of Europe's single currency bringing political union closer, the time has come for Brussels to tackle corruption head-on. If it wants to remain credible and continue developing European institutions, the EC must build a more transparent and accountable governing system. Concentrating power among country-appointed commissioners engenders corruption and cronyism. "Each commissioner is under pressure to give jobs and perks to his fellow countrymen," complains Stephen Kinsella, a lawyer with Herbert Smith in Brussels. Just as important, the EC must scrutinize and streamline its programs—particularly farm and regional subsidies, which cost about \$90 billion a year, or 90% of the EU budget.

HALF PAY. The commission's cavalier attitude toward subsidies and corruption is fanning a political crisis. Just before Christmas, an internal EC auditor leaked information to Green Party officials at the European Parliament about irregularities in \$500 million spent on youth training and humanitarian aid, among other programs. Edith Cresson, former French Prime Minister and current EC science commissioner, and Spain's Manuel Marín, responsible for development aid, came

under particular fire. Cresson denies charges that she siphoned contracts to relatives and friends. Marín admits money was misspent because of political pressure.

But instead of opening an independent investigation, Commission President Jacques Santer suspended the whistle-blowing auditor at half pay. "Intolerable," he thundered in response to Parliament demands that Cresson and Marín, at least, be



forced from office. Parliamentarians have only one, highly impractical option—sacking all 20 commissioners in a censure vote scheduled for Jan. 14. "It's like a nuclear button," says British Parliamentarian Graham Watson. If the commission were to be dissolved, European institutions would be paralyzed for months as new appointments are made and portfolios divvied up.

The all-or-nothing approach to the corruption problem highlights the flaws in Brussels' power-sharing. The European Parliament, freely elected but weak, cannot initiate legislation or impeach individual commissioners. By contrast, the unelected commission wields both legislative and executive powers. This is no way to run a continent, particularly when pressing projects are backed up and the EU is short on cash. The annual \$100

billion budget must be cut before EU can expand to the East or open new global trade negotiations on services and agriculture. Rooting out waste and fraud would not only trim spending but also would restore public confidence in the Brussels bureaucracy.

In addition, business needs more transparent and independent European institutions. Competition Commissioner Karel Van Miert has a good record of fighting illegal government subsidies and dealing with mergers. But "as they now stand, the same body that investigates makes the final decision and not always on proper competition criteria," says lawyer Kinsella. "It would be much better to establish an independent antitrust authority free of political influence."

Indeed, if the single currency is to pave the way for more growth and lower costs, the EC needs better watchdogs. Europe-wide regulatory agencies modeled on America's Securities and Exchange Commission or Food & Drug Administration could improve oversight of everything from stock offerings to biotech advances. At the democratically elected European Parliament should find more ways of checking the commissioners' power.

Meanwhile, the Parliament and commission should call a truce. Santer needs to step up the battle against corruption. Individual commissioners should be investigated and forced to resign if charges of corruption are proved. But dissolving the commission now would cripple Brussels just when its leadership is badly needed.

Correspondent Echikson covers EU from Brussels.

NOT LISTENING
An auditor who accused top commissioners of corrupt practices was suspended by EC President Santer

Looking for a fast, reliable and affordable way to ship volumes of lightweight parcels and correspondence overseas? The U.S. Postal Service has options that can save you a bundle.

International Express MailSM provides delivery to over 175 countries—for as little as \$15. Global Priority MailTM provides prompt delivery to over 30 key business countries—for as little as \$3.75. You won't find prices as low as these from any other major shipping company. Fact is, rates for comparable services are often double ours.

As one of the world's largest global delivery companies, we have the resources available to help your international business grow at prices that aren't out of this world.

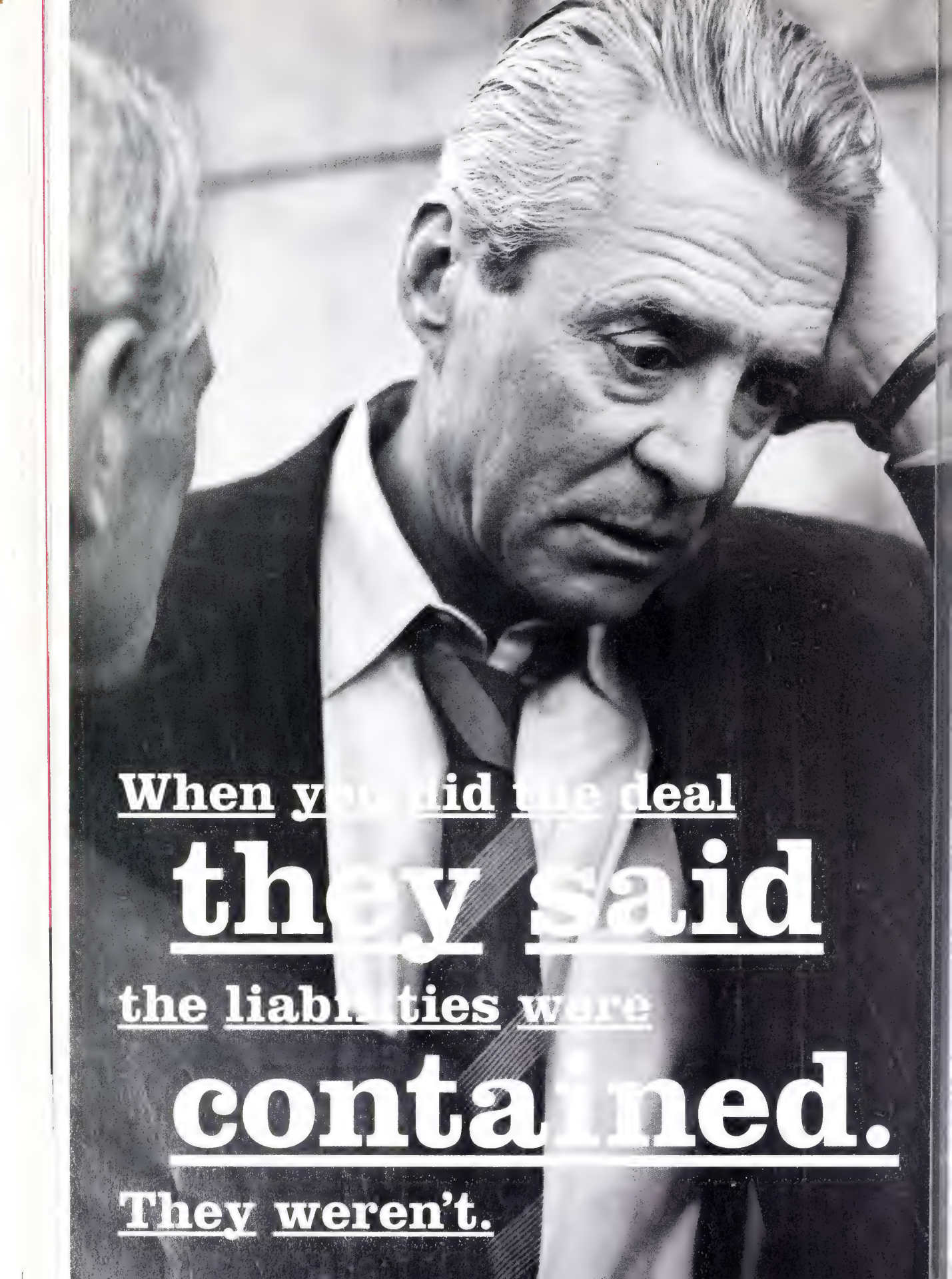
For a free Global Delivery Solutions Kit,SM call 1-800-THE-USPS, ext.DM203



www.uspsglobal.com

Small world, why pay big shipping costs? *Fly Like an Eagle.TM*





When you did the deal

they said

the liabilities were

contained.

They weren't.

YOU met with the lawyers. The investment bankers. The auditors. You did your homework. Everything was legal and aboveboard. And a deal of enormous importance and even greater worth was completed. But somehow, something went wrong. Liabilities were misjudged. And the ones that were recognized were grossly underestimated. Now it's the third quarter and you're about to report a substantial write-off.

This is the real world companies live in. When things go wrong, they go wrong on a large scale. And if your company is not properly covered, the world becomes an ugly place.

How can AIG help? By doing things others can't. By taking what you know about "insurance" and turning that notion on its head.

Who insures you?

Take our Mergers and Acquisitions coverage. Few scenarios demand the speed and creative thinking that an M&A deal does. And that is precisely what we pride ourselves on. At AIG, we know that in any deal there is always a surprise, and it is never a good one.

More than merely providing insurance, the AIG Companies plan for problems others don't see, create coverages others can't, manage risks others shy away from. We have the resources and industry-specific knowledge that allow us to guide you through most any M&A issue you face. So whether a deal is known or merely being contemplated, the AIG Companies are prepared to help minimize existing and potential future liabilities to make deals happen.

We've built our reputation on fulfilling promises. Which is why we've grown in 80 years to become one of the world's leading insurance organizations. And because our reputation is solidly backed by Triple-A-rated financial strength, you can rest assured that the AIG Companies will be there for you.

No matter what the risk, no matter where the risk, the AIG Companies possess the experience and sophistication to custom-tailor a policy that protects you from the unexpected.

Call your broker or e-mail us at gregflood@aig.com to find out more about our Mergers and Acquisitions division.

What's the worst that could happen? That's what we think about every day.



BRITAIN

SORRY, BUT THEY'RE NOT GONNA TAKE IT ANYMORE

British consumers rebel against price-gouging retailers

If Britain had a national refrain, it might be "Mustn't grumble." You hear it as Britons wait on endless lines to pay high prices for everyday groceries. You hear it as they fork out 40% to 60% more than people on the Continent for cars and computers. And you hear it as they suffer through pricey, cattle-car package vacations with the stiffest of upper lips.

But Britain's downtrodden consumers are learning to complain. Television programs about consumers' rights are experiencing huge jumps in viewership. The media and politicians are attacking coddled car dealers and obscenely profitable supermarket chains for price-gouging. Parliamentary hearings call for industry regulation and codes of conduct. "British consumers are starting to flex their muscles," says Martin Hayward, a director of the Henley Center, a consumer consultancy in London.

"RIDICULOUS." For years, scant competition, due largely to scarce and costly real estate, has allowed sellers of cars, computers, and groceries to wield enormous pricing power in Britain. Until fairly recently, British consumers didn't know they were getting a raw deal. But speedier travel has made comparison shopping easier. Now, the rise of the Internet and

the introduction of a common currency on the Continent will make price gaps between countries even more obvious. Although Britain isn't joining the European monetary union right away, British retailers won't be able to escape the downward pressure on prices for long.

Some retailers are already under fire. A prime target is Dixons, the \$4.6 billion electronics retailer that sells half the personal computers bought through shops for British homes. Critics charge that Dixons' dominant position is one reason PCs in Britain cost up to 40% more than in France or Germany. Indeed, Intel Corp. CEO Craig Barrett caused a stir recently, saying that the chain's "ridiculous margins" had dampened computer sales in Britain. Dixons counters that its gross margins on computers, around 10%, are not excessive.

But the chain is lowering its prices,

HUBBUB MPs have taken to blasting car dealers for the price gap between vehicles sold in Britain and on the Continent

PRESSURE: Critics say PCs are too costly at electronics chain Dixons

and competition is heating up. Demand for PCs rises in Britain, and shoppers are buying computers over the Internet or from direct sellers such as Dell Computer Corp. and Gateway, which often offer lower prices than stores can. Dixons is responding with its own electronic sales operation.

TELLY TIPS. Britain's car industry is another focus of outrage. In early December, members of Parliament blasted the industry for the huge price gap between new cars sold in Britain and on the Continent. The MPs complained that most cars were 30% to 40% more expensive in Britain.

When the industry offered excuses such as the higher cost of producing right-hand-drive cars and the strength of the British pound, the MPs wouldn't swallow them. Instead, they blamed much of the problem on exclusive dealership arrangements that stymie competition. Likewise, they criticized the "feebleness" of the powers granted the Office of Fair Trading, which regulates the industry. The OFT is investigating the car-pricing issue.

British supermarkets may also be getting away with gouging. The big chains—Tesco, Sainsbury, Asda, Safeway—boast some of the highest margins in the world for their industry, around 5%. Earlier this year, a London *Sunday Times* survey showed that shoppers paid up to 40% more in Britain for food at these stores than at chains in the U.S. or elsewhere in Europe. Retailers argue that opening new stores is unusually difficult and costly in Britain where land use is tightly controlled. The OFT is investigating whether the four supermarket chains have abused their market position.

British grumbling is getting louder. A recent survey by the Henley Foundation found that 56% of Britons gripeed products or services in the past year, up from 39% in 1997. More than 7 million of them get weekly coaching from British Broadcasting Corp.'s *Watchdog* series, which highlights instances of overpricing and unusually poor service and urges consumers to stand up for their rights. As the gap gets better at the back and computer grows, the real gravy train is poised to derail.

By Julia F.

in London

EDITED BY JOHN TEMPLEMAN

DESERT FOX HAS SADDAM TRAPPED INTO A CORNER

When President Bill Clinton launched Operation Desert Fox against Iraq in December, one of his biggest bets was that the three-day bombing campaign would not seriously upset U.S. strategic relations in the Middle East. It looked iffy: Moderate Arab states Egypt and Saudi Arabia, members of the grand coalition against Saddam Hussein in the 1991 Persian Gulf war, both distanced themselves from the attacks. Riyadh, for one, refused to allow Saudi bases to be targeted while anti-U.S. demonstrations rocked Arab capitals from Cairo to Damascus. It seemed as if Saddam might win Arab hearts and minds.

But a month later, it looks as though the bet was off. Saddam is more isolated than at any time since the Gulf war. Upset at the lack of Arab support following the air strikes, Baghdad unleashed an unprecedented vitriolic propaganda campaign against other Arab countries, culminating in a fierce call for Saddam on Jan. 5 for Arabs to overthrow their leaders. Fence-sitters such as Egypt and Saudi Arabia retaliated quickly and attacked Saddam's regime. "The revolution that should have come," intoned the normally bland state-run Press Agency, "is by the Iraqi people against their leader." Egyptian President Hosni Mubarak called for an end to Saddam's regime, too.

ISOLATING. For the 22-nation Arab League, whose members usually avoid public mudslinging at all costs, this is an important break with tradition—and a sign of how corrupt Baghdad is. It is more than rhetoric: At meetings in January, Arab leaders such as Mubarak and Syrian President Hafiz Al-Assad began to flesh out plans to destablize Saddam. "Saddam has singlehandedly turned the tables on himself," says Michael J. Eisenstadt, senior fellow at the Brookings Institution for Near East Policy. "Surprisingly enough, Saddam had been trying to mend rifts with his neighbors. He resumed diplomatic and commercial rela-

tions with several rich Persian Gulf countries—and longtime political rival Syria. Even Egypt opened a commercial office in Baghdad last year and sent a large trade delegation to Iraq in July. Saudi entrepreneurs, meanwhile, facing an economic downturn at home, were starting to show up in Iraq in search of business. And increasingly, Arab governments were vocally urging an end to U.N. sanctions against Iraq.

According to the Pentagon, Baghdad's tough stance against its neighbors and its challenge to U.S. and British-enforced

no-fly zones are signs that Desert Fox has seriously unnerved Saddam. The U.S. now suspects that some senior leaders in the Republican Guard and special security forces were killed. And, in what may be retribution for mounting disloyalty in the Iraqi military, according to Pentagon officials, the commander and several other leaders of a division in the south were executed. There is, says General Anthony C. Zinni, commander of U.S. Central Command "a degree of desperation that we hadn't seen before."

The big question is whether Saddam can be kept isolated. In Arab capitals, there is already fear that possible new U.S. and British strikes after Ramadan ends on Jan. 18 could

inflammate Arab feelings. Egypt, for one, is quietly cautioning the U.S. to limit future attacks to isolated Iraqi air-defense batteries in the no-fly zones. "That would keep the pressure on Saddam while not creating a regional backlash," says a Egyptian policymaker in Cairo.

As Washington searches for a new policy to contain a weakened but still dangerous dictator, Arab support is essential. When Secretary of State Madeleine K. Albright holds talks in Egypt and Saudi Arabia at the end of January, it's a sure bet that dealing with a post-Saddam Iraq will be high on the agenda.

By John Rossant in Rome, with Stan Crock in Washington



ISOLATED: No Arab unity

GLOBAL WRAPUP

INDONESIA GETS A WORKOUT

Jan. 7 agreement between Bakrie Brothers and 300 foreign creditors is expected to prove to be a landmark deal. The politically wired Indonesian conglomerate failed for over a year to reach terms on \$1.15 billion of foreign debt. In his time, an International Monetary Fund-appointed negotiator did the talking. And within three hours, Bakrie struck a deal which is likely to become the model for workouts for a dozen other bankrupt-era conglomerates.

Bakrie will swap debts for 80% of a holding company that will own five of its key assets, including a 5.3% stake in the Iridium telecoms group worth about \$100 million. Banks and bond holders will also get a 20% stake in other Bakrie operations from steel-pipe making to finance.

A EURO MADE IN CHINA?

► China's Luoyang Copper Processing Plant is hoping to make a mint out of Europe's new currency. Based in Henan province in central China, the state-owned smelter is angling to

become a major provider of metal alloys from which euro coins will be struck. Last year, it sent about 2,000 tons of metal to a mint in Bremen, Germany, for testing. It will provide a further 10,000 tons in 1999, before the European Union picks a supplier.

Luoyang faces some stiff competition. Processors in Germany, South Korea, and the U.S. also want the long-term contract. The winner is expected to be the processor who can find the alloy that makes it hardest to counterfeit the euros, currently worth \$1.16 a pop.

SIEMENS



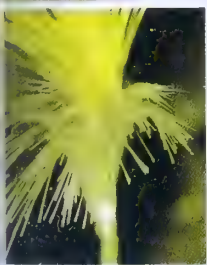
Before you dial this, you have to have

cross town or across the ocean, no call goes
anywhere without a huge global network to carry
it. And nobody makes more pieces of that
network than we do. From wireless PCS phones
to central office switches, from ISDN lines to
complete voice and data systems, we provide

communications solutions on a local, regional,
or global level. So whether you're looking for a
wireless phone for your briefcase, Internet access
for your business, or an entire communications
infrastructure for your country, don't make a move
until you've talked to us.

We're Siemens. We can do that.

this



this



and this.



Here's how the world auto industry will likely shake out: New economies of scale beef up the big boys, which gobble up less efficient parochial players. So who will be left?



THE GLOBAL SIX

GENERAL MOTORS

1998 EARNINGS
\$2.8 billion*

1998 REVENUE
\$140 billion

**WORLDWIDE
VEHICLE SALES**
7.5 million

CASH \$16.6 billion



CHAIRMAN
John F. Smith Jr.

STRATEGY GM is getting its own house in order. But it has found time to take a 49% stake in Japan's Isuzu and a 10% stake in Suzuki. Some speculate GM will rescue South Korea's Daewoo.

FORD MOTOR

1998 EARNINGS
\$6.7 billion

1998 REVENUE
\$118 billion

**WORLDWIDE
VEHICLE SALES**
6.8 million

CASH \$23 billion



CEO
Jacques A. Nasser

STRATEGY With a mountain of cash to spend, Ford is the hottest suitor on the global automotive scene. Predicted targets: Volvo, Honda, BMW.

DAIMLERCHRYSLER

1998 EARNINGS
\$6.47 billion**

1998 REVENUE
\$147.3 billion**

**WORLDWIDE
VEHICLE SALES**
4 million

CASH \$25 billion



CO-CEO
Jürgen Schrempp

STRATEGY By merging, Daimler and Chrysler have created a global powerhouse. But it needs a foothold in Asia and is already talking about a deal.

*Includes one-time charges for restructuring

MERGE AHEAD?

The '98 union of Chrysler and Daimler-Benz blazed the trail to mega-consolidations. Now, DaimlerChrysler is hot for Asian partners

It was a whirlwind first week on the job for Ford Motor Co.'s new CEO, Jacques Nasser. It began Sunday, Jan. 3, with rumors swirling in snowbound Detroit that cash-flush Ford was about to gobble up one of the world's big auto makers. By Tuesday morning, reporters were calling Nasser at home at 6 a.m. to inquire about a tantalizing but erroneous French radio report that Ford was taking over Honda Motor Co. "By Tuesday evening, we were supposed to be acquiring BMW, Honda, Volvo, Nissan—and there was someone else that I can't remember," quips Nasser.

By week's end, Nasser's every move was being scrutinized for hints as to how he might spend Ford's staggering \$23 billion in cash. When he called a press conference for Friday evening's black-tie gala at the Detroit auto show, speculation was rife that he would announce a megadeal to rival last November's \$35 billion DaimlerChrysler merger. "I'm not sure if I should be speaking to you in German, Swedish, or Japanese, the way the rumors have been flying," Nasser told a packed audience of Detroit swells. "I'm really pleased we're so popular." Nasser's only news was that Ford was bringing the Three Tenors to Detroit this summer. No big deal—yet.

But the green flag is flying for motor merger mania, and a dramatic shakeout is at hand. The top players are awash in cash and eager to buy, while the weakest are drowning in debt and glutted with factory capacity: The industry can make 20 million more cars and trucks a year than it sells, while global auto sales could hit a cyclical downturn within three years. What's more, consumers are demanding lower prices and more high-tech gizmos on

Industries

VOLKSWAGEN

1998 EARNINGS

\$4 billion

1998 REVENUE

\$106 billion

1998 WORLDWIDE VEHICLE SALES

4.45 million

1998 CASH

\$23 billion

VW has already acquired Bugatti, and Lamhard-driving Piëch is often eyeing BMW and Volvo. If is in talks with Fiat.



CHAIRMAN
Ferdinand Piëch

TOYOTA MOTOR

1998 EARNINGS

\$4 billion

1998 REVENUE

\$106 billion

1998 WORLDWIDE VEHICLE SALES

4.45 million

1998 CASH

\$23 billion

STRATEGY Toyota wants to strengthen its hold on Japanese auto maker Daihatsu Motor, truckmaker Hino Motors, and affiliated parts suppliers like Denso.



PRESIDENT
Hiroshi Okuda

HONDA MOTOR

1998 EARNINGS

\$2.4 billion

1998 REVENUE

\$54 billion

1998 WORLDWIDE VEHICLE SALES

2.34 million

1998 CASH

\$3 billion

STRATEGY Honda must grow bigger if it is to make it into the Big Six. Honda insists it wants to go it alone. But joining forces with luxury carmaker BMW could result in a dream team.



PRESIDENT
Hiroyuki Yoshino

*Estimates of Daimler-Benz and Chrysler combined results. DATA: MERRILL LYNCH & CO., SCHRODER & CO., SALOMON SMITH BARNEY, J.P. MORGAN, WASSERSTEIN PERELLA, COMPANY REPORTS

Insiders expect the giants to pick up healthy, small brands in Europe, as well as bargains in Asia

their cars, forcing carmakers to squeeze costs. The result: Only a quarter of the world's 40 auto makers are profitable. "You're going to see a much more consolidated industry within the next five years," says Schroder & Co. analyst John Casesa. "The faster the global economy turns down, the faster it will happen."

Speeding the auto industry down the road to megamergers is a group of hard-driving bosses with expansive egos and big appetites for acquisition. Volkswagen's Ferdinand Piëch has snapped up European

Industries

boutique players Rolls Royce and Lamborghini and is believed to have eyes for BMW. Denials aside, Ford's Nasser has at least investigated acquiring Honda and Volvo, and wouldn't mind picking off BMW, too.

MATING DANCE. Toyota's President Hiroshi Okuda, a black belt in judo, is particularly aggressive for a Japanese business leader and has started picking up bargains among Japan's struggling second-tier auto makers. And DaimlerChrysler Co-Chairman Jürgen Schrempp, having engineered a big German-American merger, now says he might be interested in hooking up with Japan's troubled No. 2 carmaker, Nissan. "Who knows, eh?" a smiling Schrempp said, following a Jan. 10 speech in Detroit. "We do not exclude the possibility of equity participation" in Nissan's car business. He's already talking to Nissan about its heavy-truck business, and a deal could happen by the end of January.

This automotive mating dance is being triggered by cost pressures and cutthroat pricing on top of the overcapacity problem. "The industry lately has been a giant cotillion, with everybody looking for the best partner," says DaimlerChrysler Co-Chairman Robert J. Eaton, who predicts a big European deal this winter, although not involving his company. "Companies will have to rethink their ability to survive alone," he says.

Indeed, it was the stunning merger of Daimler-Benz and Chrysler Corp. that changed the rules of the road. The two prosperous companies saw that by combining they would have a better chance of growing in each other's home markets as well as in Asia. To make it in the high-cost, tech-intense global auto business, carmakers need vast resources and reach. And old national identities are becoming obsolete in a brave new auto world where size matters above all. "The industry landscape will need to change," says Nasser. "For global players to be really competitive, their sales volumes will have to be over 5 million a year." Predicts Toyota's Okuda: "In the next century, there will be only five or six auto makers."

Who will make it into the elite five-million-plus club? So far, only General Motors Corp. and Ford make that mark. But others are knocking on the door. Many industry leaders believe it will only take a decade for the world's 40 auto makers to collapse into the Global Big Six. To be sure, the shakeout

will occur in stages, with profitable players such as Porsche national champions like Renault holding out the longest by 2010, the thinking goes, each major auto market will be left with two large home-based companies—GM and Ford in the U.S., DaimlerChrysler and Volkswagen in Europe, Toyota and Honda in Japan. Players such as Nissan or Volvo may keep their brand names but won't be running the show.

As the industry reshapes itself, insiders expect the game to head in two directions: They will seek out healthy, small brands in Europe, while picking up distressed chandise in Asia. For the top companies, the goal is to establish an all-encompassing global footprint. No auto maker in the world has that now. The Americans and Europeans are mostly minor players in Asia, while the Japanese need a stronger presence in Europe. "The key is finding the right partner, who has complementary products, geography, and a similar philosophy," says auto consultant Christopher C. Goren of Nextrend Inc. in Thousand Oaks, Calif.

FORCES BEHIND THE RACE TO MERGE

OVERCAPACITY More than 20 million units of manufacturing overcapacity, plus downward pressure on prices are forcing auto makers to slash costs and swallow rivals.

TECHNOLOGY Auto giants want to amortize heavy research and development investment in new high-tech features over a greater number of cars.

CASH The industry's biggest players have more than \$100 billion in cash for deals, while smaller, less profitable players are seeking suitors. Europeans and Americans also have lofty share prices that allow them to swallow up smaller companies.

CULTURE Nationalism is declining in Europe as the new single currency spurs companies to compete, while in Asia economic crisis is compelling companies to consider foreign partnerships as never before.

DATA: BUSINESS WEEK

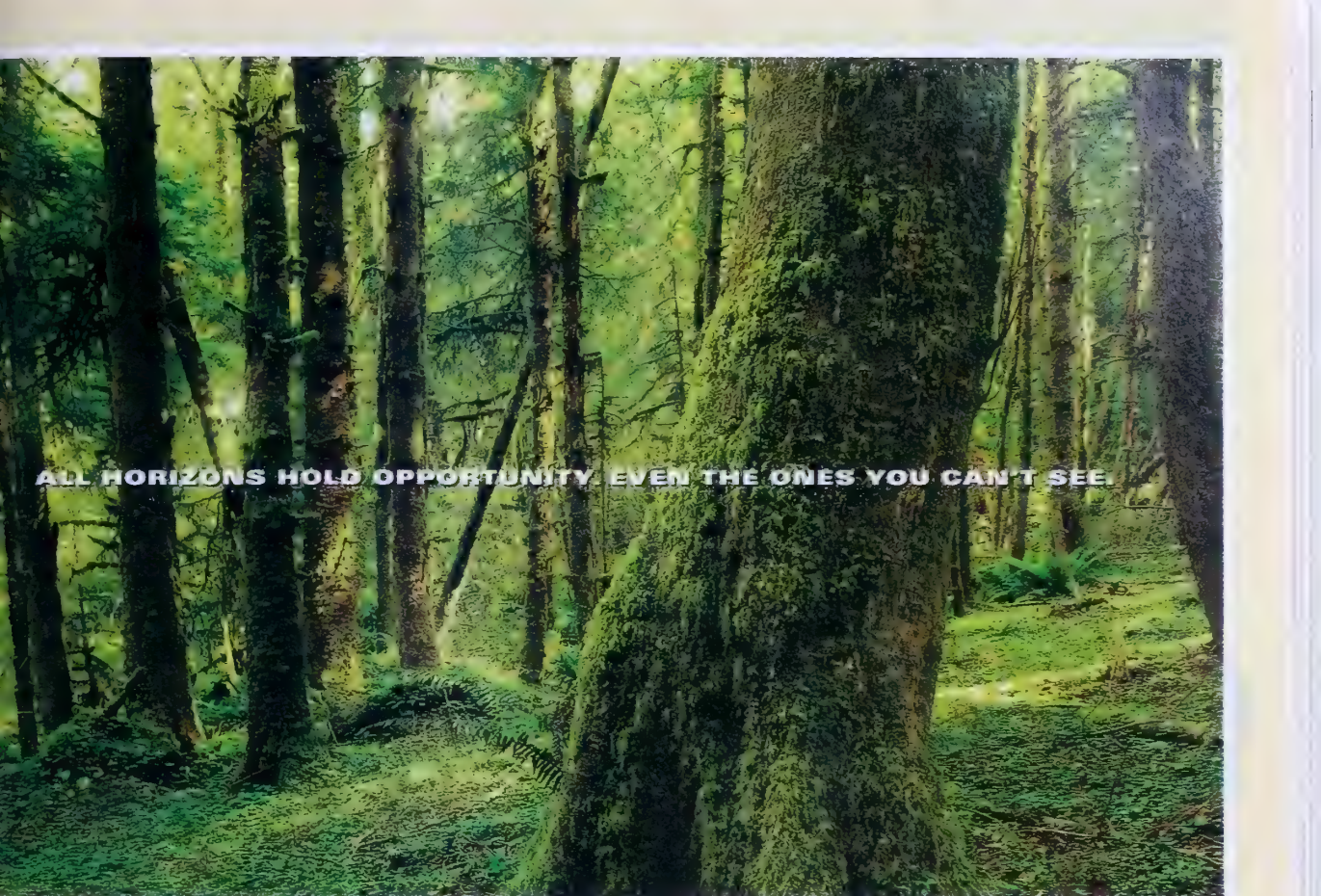
Volvo could be the next company to be scooped up. It put itself in play on Jan. 6 by hiring J.P. Morgan to shop its car business. Fiat admits it's talking to Volvo; analysts say the two Europeans could make a good match. Fiat would gain access to the European market and the U.S. market, while Volvo, which sells less than 400,000 cars a year, would broaden its small base. Fiat needs a boost. With car sales down in big markets, Italy and Brazil, the Italian company's auto division lost \$38 million in the third quarter of 1998, vs. earnings of \$1 million the year before.

But even a Fiat-Volvo combination might not be strong enough to survive longer-term analysts say. Eventually, smaller players would need a big bro.

Ford insiders say they are talking to Volvo, too, but they scoff at the \$6 billion price tag Volvo's bankers are suggesting. Says one Ford insider: "Their business is worth \$3.5 billion, tops."

ASIAN SALES. Alongside Volvo, Nissan tops the list of rumored takeover targets these days. Japan's once mighty No. 2 player is on the brink because sales have plunged thanks to lackluster models and economic distress in Japan. Nissan has been playing catch-up to Toyota and Honda since the mid-1980s and now is so debilitated it can no longer afford the same level of investments as its competitors. The carmaker is expected to lose as much as \$626 million for the fiscal year ending in March, and is burdened with \$22 billion in debt. Rivals say Nissan could be had for about \$30 billion.

Nissan's neighbor, Mitsubishi Motors Corp., is in even worse shape. Struggling with \$18.5 billion in debt, a bloated product line, and recession in its home market, Mitsubishi like Nissan, needs a white knight. Mitsubishi Motors President Katsuhiko Kawasoe admits he's talking to potential foreign partners, although he declines to discuss them. The big global players are seen as prospective suitors for Mitsubishi. DaimlerChrysler heads the list because Chrysler



ALL HORIZONS HOLD OPPORTUNITY. EVEN THE ONES YOU CAN'T SEE.

A good midmarket enterprise-wide software solution can help your company with existing opportunities. A great solution can help you see new ones.

Great Plains prepares you for those unseen horizons ahead. We can help you take advantage of the emerging opportunities within electronic commerce. Give your employees the new information tools they need. And raise customer service to new levels of quality.

Of course, we'll also take care of the needs you face today. We've integrated financial, distribution, manufacturing, HR/payroll, service management and e-business capabilities—all in a Y2K-compliant solution built on Microsoft BackOffice.

To learn more, call us at **1-800-456-0025** or visit **www.greatplains.com**. And discover the company that can help you see farther. As well as take you there.



GREAT PLAINS®

SEE FARTHER

once had a 24% stake in the company and still buys from it.

Others likely to fall quickly include the remaining smaller players in Asia. GM recently increased its stake in Isuzu from 37.5% to 49% and took a bigger chunk of Suzuki—up from 3.3% to 10%. In Korea, meanwhile, Ford attempted to acquire bankrupt Kia Motors Corp. last year but was outbid by Hyundai Motor Co. Now, Hyundai, which piled Kia's \$8 billion in debt on top of its own imposing \$6.6 billion, is looking to launch discussions with foreign partners. But Ford isn't interested in bailing out Hyundai. "We're not going to do that," comments Henry D.G. Wallace, Ford's group vice-president for Asia-Pacific operations.

Over time, the biggest predators in Asia are likely to be Japanese giants. With \$23 billion in cash, Toyota has as much money to spend as Ford. For now, the company is preoccupied with restructuring at home. It is considering creating a holding company that would make it far easier to

son, auto analyst at Salomon Smith Barney in London.

Indeed, analysts believe Fiat can prolong its independence if it can acquire Volvo without taking on too much debt. And Renault is developing breakthrough products such as the Mégane Scenic compact minivan, which was a hot seller in Western Europe in 1998. CEO Louis Schweitzer aims to double Renault's sales over the next decade—a goal that could allow it to survive on its own.

TARGET: BMW. But a reckoning in Europe could be coming down the road. The emergence of a single currency is changing the rules of competition. Under European Union pressure to liberalize its markets, foreign auto makers will gain unfettered access to Europe at yearend. An expected onslaught of Japanese competition could highlight the inefficiencies of Europe's smaller players. "Europe will become a battleground," predicts Furman Selz auto analyst Maryann Keller. "Japanese are getting themselves ready to do in Europe what they did in the United States." Eventually, many observers believe, that battle will force Europe's smaller players to succumb.

The juiciest European target for the likes of Volkswagen or Ford would be BMW. The premium brand would help these mass marketers move into the upscale. BMW made \$624 million last year on cars that sell only 1.2 million cars worldwide. The maker of luxury sedans is struggling to profit from its \$1.3 billion acquisition of Britain's Rover Group Ltd. in 1994. Since then, the German company has invested \$3.5 billion in Rover. Now, it must choose between investing the billions needed to develop a new line of front-wheel-drive cars for Rover or seeking a partner to help.

Such a partnership—perhaps with Ford—could open the door to acquisition only if the Quantum, which owns 47% of BMW, would give way to Ford ownership. For now, there's no sign of that.

Jan. 11, Heinrich Heitmann, BMW's North American chairman, declared in Detroit that his company still will be standing alone in five years.

But going it alone will get more expensive. The biggest wheels in the auto industry have already begun playing by the costly new rules. Advanced computer-aided design now allow them to develop vastly different models from one basic chassis. Consider three of Ford's newest models—the sexy \$45,000 Jaguar S-type luxury car, the \$30,000 Lincoln sedan, and the retro, reinvented Ford Thunderbird, which is expected to sell for \$35,000. Each is built on the same roughly \$3 billion platform, code-named DEW. Yet they couldn't look more different. Thanks to breakthrough manufacturing technology, hot models race to market in months—one-third of what it took a few years ago.

For the strongest and richest auto makers, these are good times. Amid the feeding frenzy of rumors at the auto show, Ford's Nasser couldn't help but sound like a man intent on building a global empire. "We already have Japanese brand and two very British brands," said the Lebanese-born Nasser, who was raised in Australia and speaks four languages. "We've got the ability to absorb and really become comfortable with a lot of different cultures." No doubt, the question is: Who will Ford, and the industry's other big wheels, absorb next?

By Keith Naughton with Karen Lowry Miller and John Muller in Detroit, Emily Thornton in Tokyo, Gail Ennis in Paris, and bureau reports

CLASSY OR SASSY, IT'S ONE CHASSIS



What size can do:
Ford used a single \$3 billion chassis as the skeleton on which to build retro Thunderbird, a sexy Jag, and a staid Lincoln



streamline its vast operations—as well as merge with other auto makers. Toyota already owns stakes in Daihatsu and Hino.

While Honda lacks Toyota's cash, it is blessed with strong growth—particularly in the U.S., where its 1998 sales topped 1 million vehicles for the first time ever. To make it into the Big Six, Honda needs to double its worldwide sales. Japan's No. 3 auto maker wants to go it alone. But with strong profits, the company is positioned to chart an independent future.

Compared to Asian players, Europe's smaller auto makers are likely to hold on more fiercely to their independence. So while the industry remake may be just as profound, the drama is not likely to unfold overnight. That's partly because of government stakes in companies such as Renault, and the opposition to job cutbacks that could accompany mergers. "You would have to see Europe facing economic recession or crisis before it merges volume-car manufacturers," says John Law-

SUCCESS IS A DIRECT RESULT OF AMBITION,
CONNECTIONS, OR A REALLY GOOD TO-DO LIST.



Address book



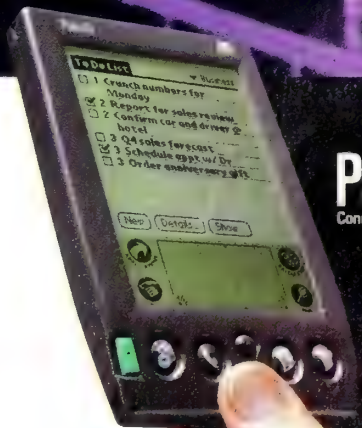
Date book



Memo pad



To do list



Palm III
Connected Organizer

size, categorize, and prioritize everything you need to do. Conquer a goal with each
you check. And that's just the to-do list. With the Palm III™ connected organizer, you
store thousands of contacts and years of schedules. Even exchange that information
ck and forth with your PC and our HotSync® technology. So when everything
need is right at your fingertips, who needs a corner office? Palm Computing®
connected organizers start as low as \$249*. To learn more, visit www.palm.com.



More connected.™

BASKETBALL

YIKES! MIKE TAKES A HIKE

How Jordan's exit is shaking the world of sports business

On Jan. 13, when His Airness—aka Michael Jeffrey Jordan—officially stepped down from his throne, the earth didn't stop spinning and the stars stayed in the sky. The world of sports business, however, did register a seismic tremor on its Richter scale.

Life Without Michael will be tough on NBA fans as they file back to a truncated basketball season. But they're not the only ones who will be hurting. His decision to retire after 13 extraordinary years of skywalking across the NBA has shaken the league. After narrowly averting a shutdown of the entire season, the NBA now faces the formidable task of trying to win back fans without its No. 1 draw. The void will be felt by the TV networks, too, as they brace for an inevitable drop in ratings, and by corporations, long buoyed by Jordan's massive appeal, as they struggle with how to replace arguably the most perfect player—and certainly the most perfect pitchman—of his generation.

Jordan is more than a basketball star. As marketers say, he's a powerbrand—a player whose popularity and reach is peerless in the history of sports business. "Michael Jordan is greatness," says Rick Burton, director of the Warsaw Sports Marketing Center at the University of Oregon.

FIRST PAIN. The NBA is likely to suffer the earliest and biggest blow. Jordan has pumped about \$1 billion in revenue into the league by beefing up attendance, stoking merchandise sales, and increasing the value of broadcast rights, according to Andrew Zimbalist, a Smith College economist who advised the

players' union during the lockout. The NBA was already reeling from the effects of its five-month lockout before M.J. hung up his Air Jordans. Many fans, who viewed the feud as quibbling among millionaires, have grown apathetic and say they are less likely to attend games this year. For example, only 75% of Detroit Pistons season-tick-

More than a basketball star, Jordan became a powerbrand with peerless commercial reach

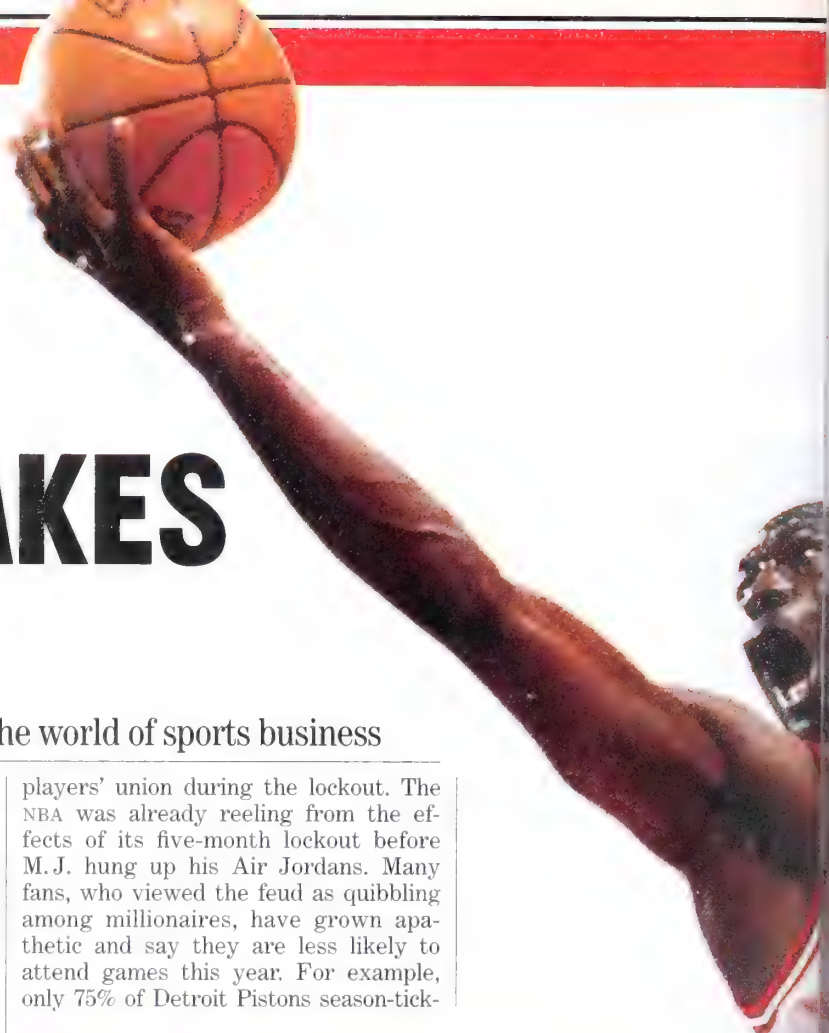
et holders have renewed their packages, down from the usual 85%, the team says. And only 30% of people with partial-season plans have re-upped. The Pistons expect both numbers to rise, but neither will reach its usual level.

Clearly, the Chicago Bulls stand to lose the most. Since a group led by Jerry Reinsdorf bought control of the Bulls for \$9.2 million the year after Jordan arrived in 1984, the team's value has grown more than 2,000%, to over \$200 million. The first pain will be from falling ticket sales. Jordan's retirement could end an amazing streak in which every Bulls game since Nov. 20, 1987, has been sold out. At up to \$80 a ticket, "I don't know if people are going to come back to watch an average team," says Chicago sports agent Stephen Wade Zucker.

And the Bulls won't be the only team to suffer. Jordan has been a top draw

wherever he plays. In his last visit to the Georgia Dome to play the Atlanta Hawks, Michael pulled in 62,000 fans, an NBA record. And 5,000 had no seats of the court. They paid up to \$100 to watch the game on a video board suspended from the roof, says Hawks president Stan Kasten. The Vancouver Grizzlies had two sellouts last year—against the Los Angeles Lakers and the Bulls. Laments Orlando Magic Vice-President Pat Williams: "Our product just decided to walk away."

Jordan's absence is sure to suck its from the NBA's lucrative licensing deals. The Bulls generate more than \$10 million in merchandise sales, more dollars than any team in the league, and Jordan long accounted for as much as a third of the league's sales, according to some estimates. While merchandisers didn't expect Jordan to be gone much longer, the '98-'99 season will be a lost year for an industry that



seeing sales drop 50% to 60% in second half of '98, says John Ho-
Sporting Goods Intelligence, a
fills (Pa.) newsletter.

icket sales decline, so will televi-
ewership. This year, NBC, which
ed NBA games for the past eight
begins a four-year \$1.75 billion
t, and it's bracing for a ratings
1994, when Jordan forsook the
ball key for the baseball diamond,
season ratings slumped from 4.9 to
d last year, ratings for NBC, TNT,
s were as much as 70% higher
is games than for others. During
offs—not even the finals—games
Jordan pulled down a 10.9 rating
4 for games without him.

ite the imminent challenge, the
k brass remain cool. "We've been
efore," says Dick Ebersol, chair-
NBC Sports. "When we acquired
A in 1990, there were those who
ed where we'd find a defining
superstar on the level of Lar-

ry Bird or Magic Johnson,
who were about to re-
tire." But despite such
stiff upper lips,
there is no obvi-
ous Jordan suc-
cessor. And his
departure has to
be a blow to ef-
forts aimed at
luring back view-
ers. After the NBA
lockout ended, Eber-
sol noted that the
league has its work
cut out. "There's no
question in my mind
that the real long-
term basketball fan
will be back al-
most immedi-

ately," he said. "The
casual fan will take us
some time."

Time is about the
only thing that stands
a chance of dulling
Jordan's highly pol-
ished image. His slam-
dunk appeal as an en-
dorsor will change
little in the short
term. Even though
Jordan's agent, David
Falk, long ago signed
Jordan to multiyear
deals with corporate
partners, marketers
still show the same
zeal for the superstar
today.

Gatorade is typical:
It doesn't plan any im-
mediate changes in its
marketing program
because of Jordan's
announcement. The
brand—which has
more than doubled its
sales during Jordan's
tenure as an endors-
er—will continue using
him in about one-fifth
of its commercials,
showing him both on
and off the court.

"Michael has a work ethic and competi-
tiveness that transcend the court," says
Susan D. Wellington, president of Quaker
Oats Co.'s U.S. Gatorade division,
which has used Jordan as an endorser
for eight years. "Right now, I'd like to
meet the idiot who stops using him."

SECOND SHOCK. Nike Inc., Jordan's first
and most important major corporate
partner, also says it plans to deepen the
relationship. The athletic-shoe company
has made elaborate preparations for Life
Without Michael on the court, creating a
separate Team Jordan brand that could
be expanded beyond athletic
wear, says Larry G. Miller,
president of Nike's Jordan
Brand.

Still, Nike cer-



THE KING OF THE PITCHMEN HAS DEALS WITH:

BRAND	EST. 1998 VALUE (MILLIONS)
NIKE	\$16
GATORADE	5
BIJAN	5
MCI WORLDCOM	4
HANES	2
BALL PARK FRANKS	2
RAYOVAC	2
OAKLEY	2
WILSON SPORTING GOODS	2
WHEATIES	2
AMF BOWLING	1
CBS SPORTSLINE	1
CHICAGOLAND CHEVROLET	1
DEALER ASSN.	1
TOTAL	\$45

DATA: IEG ENDORSEMENT INSIDER

tainly didn't need an-
other hit to its sports-
marketing machine.
Even before the
Olympics scandal in
Salt Lake City started
giving sponsors like
Coca-Cola, U S West,
and UPS the jitters,
sports-star saturation
was starting to show.
Nike annually spends
\$500 million on en-
dorsements and spon-
sorships that range
from Jordan to the
Brazilian national soc-
cer team. Yet its earn-
ings are off by more
than 50% in its just
concluded second quar-
ter, in part because of
higher endorsement ex-
penses and the NBA
strike. Nike recently
said that it would trim
\$100 million from its
endorsement budget
for 1999.

Its sales, already
battered by Asia's eco-
nomic slump and shift-
ing fashions, are likely
to suffer as Jordan's
retirement and ill feel-

ings from the NBA lockout keep fans
away from the game. The retirement
effect hit as early as Jan. 12, when news
stories about Jordan's expected an-
nouncement were all over the daily pa-
pers and TV. Nike shares slipped more
than 4%, to 42%, as investors worried
that sales of the company's athletic
shoes and apparel would take a bad
bounce upon Jordan's exit.

The biggest question for Nike is
whether Jordan's brand can endure over
the long haul. "People fade in retire-
ment," says Jim Davis, chairman and
CEO of New Balance, which does not use
endorsers. "His name will be out there
for a year or two, but after that, it won't
mean a hell of a lot—at least in terms of
endorsements. When an endorser is not
seen in action, his value diminishes."

Most athletes who have maintained a
high profile after retirement—like Joe



Namath or Arnold Palmer—have done so by endorsing adult products. Jordan is far more popular than Palmer ever was, particularly globally, and he could continue endorsements that don't directly relate to sports. Nike has portrayed him as a fleet-footed CEO and will focus more on his core values of hard work and dedication in future ads. Sara Lee Corp. pays him to promote Hanes underwear and Ballpark Franks and almost never shows him on the court. "You can still use Michael Jordan the person," says Jim Andrews, editor of *IEG Endorsement Insider*, "but you may need to change the message."

CORPORATE PLAYER. Still, a huge part of Jordan's appeal has always been to kids. That's why he starred in *Space Jam*, a Warner Bros. live-and-animated movie that brought in \$250 million globally. By 2010, though, there will be an entire generation of kids who have not watched His Airness play a single game. To them, he may have more in common with Joe DiMaggio and Joe Montana—legends of yesteryear—than with the stars of the moment. "If he's not positioned well, it's just a question of a couple of years before he loses the power of being a credible and meaningful endorser," says Seth M. Siegel, co-



STANDING-ROOM-ONLY TO THE END Jordan exits after having packed every Bulls game for more than 11 years

chairman of Beanstalk Group, a New York firm that negotiates licensing deals for companies, including Coca-Cola.

Even so, Jordan will still have much to offer Corporate America. His uncanny connection to consumers could translate into a job as a corporate adviser or even director. "He could provide consumer-

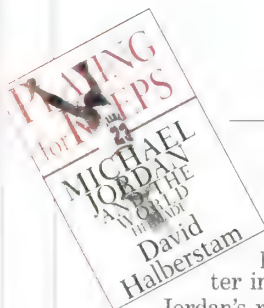
marketing advice at the top of a company and an increase in the company's image," says Charles Tribbett III, managing director of headhunters Russell Reynolds Associates Inc. in Chicago.

Looking businesslike in a suit and gold tie at his farewell press conference, Jordan said he will indeed look to the commercial world to satiate his "compulsive juices." And he barked: "All the people say Michael Jordan has no challenges away from the game. I dispute that."

The first challenge for Jordan and his advisers is to decide exactly how to position him. He could do another movie and hit the speaking circuit. He could be part-owner of an NBA team, like former Pistons star Isiah Thomas until he sold his share of the team to Raptors. Or maybe he could be involved in public-interest issues or politics, as former New York Knicks star Bill Bradley did.

Now there's a man Michael hasn't conquered.

By Roger O. Crockett, with David Leonhardt and Richard A. Mello in Chicago, Mark Hyman in Baltimore, Ronald Grover in Los Angeles, and Himelstein in San Francisco. Richard Siklos in New York



A SLAM-DUNK FOR RANDOM HOUSE?

In sports-book publishing as in sports itself, timing is everything. And like a pinpoint pass to a cutter in the lane, Michael

Jordan's retirement could mean a big score for two recently published books.

For the Love of the Game: My Story, by the No. 1 hoopster himself (with a little help from book producer Mark Vancil), is an opulent coffee-table volume published this fall by Crown Publishers Inc., an imprint of Bertelsmann's Random House Inc. David Halberstam's *Playing for Keeps: Michael Jordan and the World He Made*, which carries the Random House colophon, will be in stores on Feb. 1—just as the scaled-back NBA season starts.

Executives at Crown acknowledge

that Jordan's retirement was on their minds all along. The idea of *For the Love of the Game*, which has a cover price of \$50, came from Vancil, president of Rare Air Ltd. in Chicago.

"Vancil had a sense that Michael's retirement would mean a flurry of unauthorized and not-so-good books," says Chip Gibson, Crown's president and publisher. "So he said to Michael, 'You want to control this and have it come from you.'"

NEW MUSCLE. The volume hit No. 2 on *The New York Times* best-seller list, but the almost-canceled basketball season hurt sales during the critical holiday period. Now, a book that Gibson says was "somewhat overdistributed"—700,000 copies were printed—could soon show new muscle.

Halberstam and Random House officials say there was no calculation regarding the release of *Playing for*

Keeps. According to Halberstam's editor, Scott Moyers, the author wrote a lot of the book during the last NBA season. "David wrote as fast as he could," says Moyers, but "couldn't get it done by Christmas—February seemed all but a good date for us."

But even if the author and publisher of *Playing for Keeps* were clairvoyant in choosing a pub date, they find no fault with the timing. Observes Moyers: "It was nice of the NBA to start the season on our publication date: Jordan is in the air, the NBA is in the air, and this book is likely to be the first and last word on Jordan's career." Well, with 76 Jordan books since 1987, at least some of the last words.

By Hardy Green in New York

COMMENTARY

By Jay Weiner

WHAT DO WE WANT FROM OUR SPORTS HEROES?

It has become a game devoted to individuality. Sure, there's passing and team defense. In basketball, pro basketball, the jazz of mass sport.

It is an intimate game, with players in shorts and tank tops, socks and sneakers, and nothing on their heads. Their talent isn't hidden behind helmets. It isn't as remote as a center fielder making a diving catch. Michael Jordan was a man who milked the organic nature of the game, bringing us closer to him and then exploiting that time and place.

Watching him on the court, fans and nonfans alike marveled at his skill, his cool, his competitiveness, his reliability. He has often been called the "Babe Ruth of basketball." But that's only partly true. Both were superstars who brought their games to new levels of popularity. Both were famous around the world, quintessential American things. But Jordan did something the Babe never did: He commercialized his sport and himself, turning both into brands for an emerging league of sports marketeers.

INFINITUM. Jordan became an icon of sports for the late 1980s and 1990s, the Me Generation that mixed Madison Avenue with the playground. Dapper and articulate, but rarely critical, Jordan was the center star who stood for little that astonishing us with his on-court superiority and bombardment with his knack for exercising "synergy" before most of us knew what that awful word meant.

Sneakers, energy drinks, fast food, cologne, a Bugs Bunny movie, upscale restaurants: Jordan had his name and his money attached to them all. He blazed the trail for less marketable athletes as big, bad Shaquille O'Neal; charismatic players such as the formerly Grant Hill; and less marketable emerging stars such as "da



Other sports legends stood for something besides fast food, energy drinks, cologne, and eateries

TED WILLIAMS: TWO WAR TOURS AT HIS PEAK

kid" Kevin Garnett. They all took classes in the Jordan Principle: Sports sell things, and things sell sports.

There are those who will say that Michael Jordan was the "greatest athlete ever." And, perhaps, he had more impact on his sport and on the business of sport than anyone. But despite his amazing athleticism and the genuine thrills he gave us with his sweaty ballet and tireless determination, wasn't

something always missing?

Other historic athletes have had more soul. Baseball legend Ted Williams said much with few words by going to war twice at the peak of his career. The great Boston Celtics center Bill Russell took a stance on racial issues at the height of the civil rights movement. Tennis star Billie Jean King was a vocal pioneer for women athletes. Boxing's Muhammad Ali fought for a generation of protesters with a clever poetry of words, footwork, and fists. Jordan said plenty, but his words were almost always related to the products he endorsed or the acrobatic shot he had just made.

MODEL BEHAVIOR. One school of thought says that athletes shouldn't be expected to do any more than do their job; that there's no law saying they have to pontificate on the matters of the day. And in this day of spoiled millionaire athletes who sulk at perceived slights, throttle their coaches, and get nabbed doing drugs or worse, Michael's exemplary attitude and behavior were not small things. Millions of kids looked up to him.

Still, in his own way, Jordan did spread an ideology. It was that sports are not just games but tools for advertisers. It was that basketball isn't a playground thing, but a corporate thing.

Our children will tell their children of having seen Michael play. But what will the answer be when they're asked: "Mommy, what happened when the greatest athlete of all time quit?" It might be something like this: When Jordan retired, one of the most incredible dynasties in pro sports history died. An entire league trembled. TV networks reeled. And Nike Inc.'s stock price plummeted.

Weiner writes about sports from St. Paul.

ANTITRUST

MICROSOFT: THE VIEW AT HALFTIME

Justice has scored a few major points, but a rout against the company is unlikely

For the past five years, Microsoft Corp. has been subjected to one of the most intensive investigations any company has ever endured. Dozens of government lawyers have been digging through Microsoft's files, reading its executives' E-mail, and interviewing its competitors, partners, and economists about the company's controversial business practices. The goal: to prove that America's leading software company is a danger to the public.

Using 1,400 of the juiciest documents that it could find, as well as damning testimony from top executives at Netscape Communications, America Online, Apple Computer, and Intuit, the government has done its best during the past 13 weeks to prove that Microsoft is indeed a predatory monopoly. So now it's fair to ask: Has the Justice Dept. managed to make its case?

The halftime verdict: that Justice and 19 state attorneys general are headed toward, at best, a partial victory over Microsoft. The majority of the trial watchers interviewed by *BUSINESS WEEK* expect the trustbusters to prove that Microsoft engaged in unfair contractual practices that forced business partners to shun Netscape Communications Corp.'s Internet browser. Some observers think that the agency will also be able to win a verdict that the company is guilty of a clear pattern of anticompetitive acts. But few of them believe that, by the time this case finishes the appeals process, Justice will prevail on the charge that set off the suit in the first place: that it was illegal for Microsoft to bundle an Internet browser into the Windows operating system.

Of course, this court battle is far from over: Microsoft is likely to make headway when it presents its own witnesses—and could score big points if CEO William H. Gates III chooses to

testify and presents a strong defense of his company's actions. But the software colossus could also lose ground if its witnesses fall apart under the cross-examination of David Boies, the Justice Dept.'s legendary lead litigator. Below are the government's key charges, a summary of how well Justice has done in proving them, and an analysis of Microsoft's most likely course of counterattack.

MONOPOLY: Does Microsoft face meaningful competition?

To win the case, Justice first has to prove that Microsoft is a monopoly. Under antitrust law, none of the company's allegedly predatory practices could be deemed illegal unless Judge Thomas Penfield Jackson decides that it virtually owns the operating-system market.

Fortunately for the feds, this point is a slam dunk. Microsoft has sold the dominant personal-computer operating system for many years. According to Justice, its market share rose from 93% in 1991 to 95% last year. In pretrial deposition testimony, executives from Gateway, Hewlett-Packard, and other computer makers have testified that they have no reasonable alternative to Windows. Asked what would happen if her company were to try selling non-Microsoft operating systems, Gateway Associate Business Manager Penny Nash said it "would be suicide."

Because this issue of competition provides the foundation for the feds' case, Microsoft is not giving up. Richard L. Schmalensee, an economist for the defense, testified on Jan. 11 that the software market is so dynamic that Microsoft's dominance could erode at any time—just as IBM's once did. As evi-



MONOPOLY

JUSTICE



MICROSOFT



EDGE:
JUSTICE

dence of this dynamism, he pointed to the recent merger of America Online and Netscape. Most experts, however, don't believe that this argument will hold much sway with Judge Jackson. "Microsoft has a pretty heavy burden demonstrating that there is a real potential for eroding the market," says Albert A. Foer, president of the American Antitrust Institute.

BULLYING: Did Microsoft pressure other companies from market Netscape's browser?

Of all the charges against Microsoft, this is the one that's most likely to fail. Antitrust law prohibits monopolies

ring their distributors not to offer competitors' products. But Microsoft business partners have repeatedly testified that the company did just its attempts to win the Internet market from Netscape. Microsoft was able to bully other companies into favoring its Internet Explorer browser over Netscape's Navigator by leveraging the power of its dominant operating system, argues Justice. Media giants Walt Disney Co. and Apple both testified that they entered into exclusive deals with Microsoft in exchange for prize real estate on the Windows desktop. Labeling the company "the 1,000-pound gorilla

'We're not going to give you shelf space if you do business with Netscape.'

In cross-examination, Microsoft lawyers argued there are still plenty of ways for Netscape to distribute its product. It can use the Internet, the thousands of Internet service providers that don't have deals with Microsoft, or its new parent AOL. Expect Microsoft executives such as Joachim Kempin, its lead negotiator in dealing with computer makers, to say

that Explorer bested Navigator simply because it's a better product.

But because there do not appear to be legitimate business justifications for Microsoft's exclusive deals, most experts don't expect these arguments to succeed in convincing Jackson. Indeed, one sign of Microsoft's vulnerability on this issue is that it voluntarily relaxed some of its contract terms last year, just before the trial started, such as those limiting the ability of Internet service providers to promote Netscape.

TYING: Did Microsoft illegally bundle its browser into Windows?

In many ways, this is the most important issue in the case. By claiming it was illegal for Microsoft to bundle Internet Explorer into Windows, the government

challenged the company's fundamental business model, which is based on steadily adding new features into its monopoly operating system.

The problem for the government is that in June, the U.S. Court of Appeals for the District of Columbia, which will review the case after Jackson rules, said the company had broad leeway to design its product any way it liked. Indicating that Justice would have to prove there are no benefits at all from bundling, it set a legal standard that's almost impossible to meet. "Integration is the most difficult issue for Justice," says Washington antitrust lawyer George S. Cary.

BULLYING

JUSTICE



MICROSOFT



EDGE:
JUSTICE

But that hasn't stopped the trustbusters from trying to win on this point. The feds have presented evidence that some customers want operating systems without browsers, that there's no technical reason to meld the two products, and that PC makers could determine what software features consumers receive just as well as Microsoft. Argued computing expert David Farber, a Justice witness: "Taken to its logical extreme, [the appeals court standard] would mean that Microsoft could bundle together all existing and future applications with its current (already massive) product sold as Windows 98."

But given the appeals court's views, company witnesses will try to make a strong case to the contrary. Senior Vice-President James E. Allchin is likely to give Judge Jackson illustrations of how bundling helps consumers. Noting that users need to retrieve information from a variety of sources, including the Web, floppy disks, and CD-ROMs, for instance, Microsoft is set to argue that it makes sense to give consumers all the tools to do so in one uniform package. And that means wrapping a browser into the operating system.

More important, Microsoft's lawyers will argue that any move by a federal judge to second-guess the configuration of Windows will start the government down the slippery slope of interference in the design of a computer operating system. And that's just what the D.C. Circuit appeals court decried.

TYING

JUSTICE



MICROSOFT



EDGE:
MICROSOFT

DIVIDING MARKETS: Has Microsoft tried to split markets with competitors?

The most explosive accusation Justice has hurled at Microsoft is that it proposed allocating the browser market in a June, 1995, meeting with Netscape. Apple's Avadis Tevanian Jr. and Intel Corp.'s Steven D. McGeady backed up this charge when they testified that Microsoft had made similar proposals to their companies. Despite the fireworks, there's little hard evidence to support Justice's claims. No one caught Microsoft proposing to divide markets on tape, nor are there any "smoking gun" documents.

Because Justice's charges are based primarily on the testimony of Microsoft's enemies, plus some indirectly incriminating E-mail and internal company documents, many experts question whether the market-division charge will hold up during the second half of the trial. "The government has made a circumstantial



the industry," Disney Internet Executive Wadsworth said in his deposition that Microsoft held "all the cards" because they have this broad distribution capability through... Windows. Justice also introduced evidence that Compaq Computer Corp. had to license Internet Explorer if it wanted to sell Windows at all. "Enough exclusive deals, according to Justice, Microsoft was able to squeeze its way out of many of the main channels of browser distribution. 'This is the longest part of the case,' says Justice. Institution antitrust expert George S. Litan. 'They've got multiple layers of Microsoft telling people:

case so far," says Brookings' Litan. "The door is open for Microsoft to cut it down."

Details of the key meeting are murky. Netscape CEO James L. Barksdale testified that Microsoft execs discussed drawing a "line" between the two companies' markets—with Microsoft providing browsers for Windows 95 and Netscape getting everything else. In support of this version of events, Justice has offered a day-after memo written by Dan Rosen, Microsoft's general manager of new technology, to Gates saying that one goal of the meeting was to "establish Microsoft ownership of the Internet client platform for Win95."

But Microsoft tells a different story—and has its own documents to show the judge. Microsoft says the get-together was simply an opportunity to tell Netscape about features it intended to put into Windows. There's nothing illegal about that, the company argues; such meetings with applications developers were routine.

To support its case, the company is likely to point to different passages in the memo written by Rosen the day after the meeting. In one of them, he indicates that Microsoft execs told Netscape about plans to expand Windows to include some—though not all—of the functions in the Netscape browser. The company claims the goal of this discussion was not to divide the browser market but rather to give Netscape the information it needed to build its browser on the wider Win95 base. "[M]uch of the conversation centered on a discussion of how the lines would be drawn between [Windows] and their value-added," Rosen wrote.

Which side is telling the truth? The ultimate resolution of this game of he-said-he-said will probably depend on the testimony of key witness Rosen.

DIVIDING MARKETS

JUSTICE



MICROSOFT



TOSS UP

SABOTAGE: Did Microsoft attempt to derail Java?

The government's primary charge against Microsoft is that it tries to kill any competitive threat to Windows. As evidence, it has alleged that the company attempted to subvert Sun Microsystems Inc.'s Java programming lan-



NOW, IT'S MICROSOFT'S TURN

To beat Justice, here's what the company must do in the second half of the trial:

FOCUS ON HARM The company's strongest argument is that its actions haven't hurt consumers. Every witness needs to drive this point home.

ATTACK THE ATTACKERS The key evidence backing some of Justice's charges, such as Microsoft's proposed division of the browser market, has come from the company's foes. Defense attorneys will try to shred their credibility.

HUMANIZE THE COMPANY Microsoft will fare better if Jackson believes that its primary motive is to help customers, not protect its monopoly.

DATA BUSINESS WEEK

guage—a product that allows software developers to write programs that run on any operating system, thereby giving Windows no special advantage over other products.

Justice says that by creating its own version of Java, Microsoft was attempting to destroy the rival product's key advantage: its ability to run on all types of hardware. Justice offered up a heap of incriminating internal E-mail as proof of Microsoft's malicious intent. Some don't leave much room for innocent explanation. In one, platforms and applications Vice-President Paul Maritz told former Microsoft exec Brad A. Silverberg that a need exists "to fundamentally blunt [Java] momentum" to "protect our core asset Windows." The government's charges were bolstered when a California federal judge recently awarded Sun a preliminary injunction in a suit charging Microsoft with violating its Java license.

But Justice's argument has one big hole: When Microsoft modified Java, it improved it. During testimony by James A. Gosling, a top scientist at Sun, Microsoft's legal team presented a

stack of evidence that Java does really work as it's advertised. The judge seemed impressed. At the end of Gosling's testimony, Jackson put him on the spot: Microsoft's lawyers have "presented evidence that Microsoft gets the importance of Java and with it and just made a product. What's your response?" Gosling admitted that Microsoft's Java "virtual machine," the software that allows Java-based programs to run on a computer's prior in some ways and Microsoft has improved its technology faster than Sun.

Antitrust experts say, too, that the mere fact that Microsoft improved Java won't necessarily offset its seemingly predatory intent. So this issue is still up for grabs. The outcome could turn on the credibility of Senior Vice-President Robert Muglia, who will tell Microsoft's version of the Java story.

HARM: Do Microsoft's actions hurt consumers?

The Supreme Court once declared that antitrust law exists "for the protection of competition, competitors." That means that Microsoft won't win if it proves only that its business practices hurt Netscape. It also has to convince the court that the company threatens consumers. Right now, that's the trustbuster's Achilles' heel. Microsoft's products are getting better, and their prices generally hold steady or, in many cases, fall. Justice is in a tough position. It must show that the company's software is as good and cheap as it would be if the company played by the rules.

That's not easy to do. To assist, for example, that Microsoft is overcharging for Windows, government witness economist Frederick R. Warren-Boulton argued that its price hasn't fallen as fast as other types of computer products. He cited Microsoft documents showing that Windows, which accounted for 0.5% of the cost of a personal computer in the early 1990s, might eventually count for 10%. But Microsoft's economist expert will have a ready response: the performance of Windows has proved to such a degree that the price increases are justified.

issue of innovation is also a n. Justice's theory is that ft's aggressiveness scares oth- anies away from inventing new s. But under cross-examination, e's Barksdale admitted his com- tinued improving its product Microsoft's competitive attack. spite Microsoft's efforts to tor- n's Java and Apple's QuickTime, o products are still on the mar- Jan. 12, Justice economic wit- anklin Fisher gave Microsoft an ted boost when he said that

consumers were not harmed "up to this point" and that the danger was down the road. "At an absolute minimum, the govern- ment is saying that they may have a case someday, but certainly not yet," scoffs New York antitrust attorney Robert A. McTamaney. Justice Dept.'s case that Micro- hurt consumers "doesn't add awful lot," says Ernest Gell- professor of antitrust law at Mason University. "It certainly astify any kind of major reme- see conduct remedies [such junction saying you shall not usive restrictions on your con- can't see them saying we're break you up, or you can't offer rser as an embedded part of 98."

HEAD. At the halfway point in there are still a few X-factors l influence the outcome. One is many discreet issues in this n as a whole, may add up to the sum of their parts. Under an Act, it's possible that Jack- t find that Microsoft engaged al pattern of conduct intended its monopoly—even if he si- asly finds there's not enough o prove individual charges such r market division.

Gates ends up on the witness too, would have a major im- e case. But it's hard to predict ul would charm Jackson with n for Microsoft's mission or e judge with his famed tem- tlement is also still possible. s appear to be far apart, but rties often work things out as ect of a verdict approaches. time of a closely contested ame, there's still plenty of surprises.

e France in New York and Garland in Washington, with m and Heather Green in

Government

PRESIDENTIAL PROSPECTS

RED CROSS WONDER WOMAN?

Elizabeth Dole's PR machine vs. reality

It was vintage Elizabeth Dole. A day before announcing her resignation as president of the American Red Cross, aides leaked word that she was weighing a Presidential bid. Naturally, camera crews and a crowd of cheering employees were on hand as Dole turned her valedictory into a media event. "We have never been in better financial health," she said in her soft North Carolina drawl. "The Red Cross is solid as a rock."

It is crucial for Dole, 62, perhaps the Republican Party's best-known woman, to trumpet her experience as head of the \$2 billion Red Cross and two Cabinet departments. She has never held elective office, so she needs to es-



"CAPTIVATING AND CHARMING": With Hurricane Andrew victims in 1992.

DOLE'S RED CROSS REPORT

Public relations	A+
Strategic planning	B
Fund-raising	B-
Management skills	C
Employee relations	C

tablish her bona fides as a top executive before she jumps into the race.

But just how good a manager is she? Political adviser Mari Maseng Will insists that Dole's stint at the Red Cross "was nothing short of a transformation," as she turned a troubled charity into a streamlined organization. Part of Dole's magic touch: tapping her connec-

tions to pull in \$3.4 billion since 1991.

Like any proud executive, Dole stresses the sunny side. Reality is more complex. Since 1993, the Red Cross's blood operation has been under a court order, requested by the Food & Drug Administration, to meet rules assuring the purity of its blood supply. And for all Dole's claims to have restored the Red Cross's bottom line, the charity's finances remain rocky. "She's wonderful, she's captivating and charming, but she is not a good manager," says one top Red Cross exec who resigned over Dole's policies. "Her focus is almost 100% on image."

RED INK. Among Dole's proudest accomplishments is her record as a fund-raiser. But since fiscal 1990, the year before Dole joined the charity, public support has increased only 10%. The Red Cross took in \$520 million in 1990; seven years later, its collections totaled \$572 million and fund-raising costs had

Check Out the New Enterprise Online

enterprise.businessweek.com

Business Week Online has expanded its site for small-business owners and executives. Now you can get news every day on topics important to you, plus an array of databases, story archives, and business tools.

ADVICE

Ask our experts for business tips, read the diary of a budding entrepreneur, and learn to strike a balance between work and family life.

FINANCE

Raise money, get in on lucrative government programs, cut your taxes, and find the best deals on bank rates and credit cards.

TECHNOLOGY

Find the best computers, office products, and services, and learn how to manage them.

BENEFITS

Is your pay package up to par? Check out our extensive surveys.

YOUR MONEY

Plan your investments, taxes—and your retirement.

BusinessWeek ONLINE



Also look for us on America Online (keyword: BW). For a free trial diskette including 50 free hours on AOL, call 1-800-641-4848 and mention Business Week.

Government

climbed by 91%. During the same period, expenses grew faster than income. The charity is in the black overall, but the unit that handles blood collection and distribution will show a \$35 million loss in fiscal 1998—red ink for the seventh year in a row. The division has run up a \$330 million debt.

One reason for the loss is the costly overhaul that the FDA demanded in 1993 when it found that the Red Cross was not moving fast enough to protect the blood supply from deadly infections such as HIV. Brian McDonough, who oversees the blood unit, credits Dole for making

community blood banks but also military. Early on, V.I. signaled it would share its knowhow with one. So the exclusive Red Cross government brought howls of complaint from competitors—and triggered an antitrust investigation by the Justice Dept. antitrust investigation.

Critics also take aim at the agency to name major GOP donors to the Red Cross board. Four of the large governors gave the maximum allowable to the Bob Dole Presidential campaign; seven board members and their corporations gave nearly \$1 million to Republicans during the 1996

campaign cycle. Among the donors was D. Wayne O. Andreas, wife of Bob

KPMG warned that consulting fees were almost half of the \$926 million payroll

the blood supply safer by consolidating testing centers and upgrading information systems. The unit is on track to break even next year, he says. "She has been a significant catalyst to move [us] from the Dark Ages of blood banking to the modern age," he adds.

But Dole, who declined to comment, moved aggressively and alienated many community blood banks. Their complaint: The Red Cross is so intent on expanding its grip on the blood supply that it has forgotten its charitable mission. Indeed, Dole is pushing to boost market share from the current 47% to 60% by 2002 as a way to increase income and put the division back in the pink.

CAMPAIGN CRONIES. That could eliminate the locals. "The Red Cross has taken actions that are inconsistent with our organizations' humanitarian mission," says Jim MacPherson, head of America's Blood Centers, a group of community blood centers. "A monopoly of the blood supply is not in the best interest of anyone."

In late 1997, Dole signed an exclusive contract with V.I. Technologies in Melville, N.Y.—and gave it a \$3 million loan interest-free for three years. The Red Cross also agreed to pay V.I. to clean a certain amount of blood. In return, it obtained a market advantage over rival blood banks because it now can offer ultrapure blood—a value-added product that it can sell for about twice the cost of a "regular" unit of blood. V.I.'s blood-purifying technology was coveted by not only the Red Cross and



CONNECTIONS: At Harvard last summer, Dole met with supporters.

chum Dwayne O. Andreas, Archer Daniels Midland Co. interests gave more than \$3 million to the Red Cross after Dole took office and more than \$400,000 to the 1995-96. While a senator, Bob Dole championed ethanol tax breaks and ADM's profitability.

In 1996, Dole took leave from her husband. On her return, she hired a handful of top advisers for her campaign as consultants. They worked on specific projects, received six-figure fees. A KPMG partner later warned that consulting fees were running close to half the total \$926 million. Dole also added to her Bob Dole advisers to her personal staff, including Will, the communications director for the Dole '96 campaign. Meanwhile, the charity laid off more than 100 staff in 1997 to cut costs.

Is Elizabeth Dole more politician than hands-on manager? Over the years, as Dole weighs a run for nomination, she'll have plenty of opportunities to convince voters that her substance will triumph over style in the Presidency. But she may find it difficult to lean on her record at the Red Cross.

By Lorraine Woellert, with Dwyer, in Washington

coffee-table book about the golf greats: \$65

videotape of the golf greats: \$19.95

commemorative poster of the golf greats: \$12

weekend with the golf greats:

priceless



NICKLAUS · TREVINO · IRWIN · MORGAN · FLOYD · AOKI · PLAYER

1999 MasterCard® Championship from Hawaii.

Jan 22nd, 2-4 PM EST

Jan 23rd, 5-7 PM EST

Jan 24th, 8-10 PM EST

ESPN

there are some things money can't buy

for everything else there's MasterCard.™



Proud Sponsor of the SENIOR PGA TOUR and friend to golfers everywhere.



JOHN THORNTON

A career investment banker who extended Goldman's global reach, he played a role in pushing Corzine to relinquish his post



JOHN THAIN

Close to Thornton and Paulson, the firm's chief financial officer emerges as a big winner

HENRY PAULSON

Now Goldman's sole CEO, he insists that the management shakeup had nothing to do with the IPO or trading losses

THI AT



COUP GOLDMAN

Cover Story

by the fight over going public
a banker-trader clash helped
topple Jon Corzine

Monday, Jan. 11, was a painful day for Jon S. Corzine, the leader of Wall Street's most prestigious investment bank, Goldman, Sachs & Co. That morning, from his unassuming office at 85 Broad Street in the heart of New York's financial district, Corzine called clients and regulators to tell them his astonishing news: he was no longer chief executive of Goldman Sachs. The first call was to William J. McDonough, president of the Federal Reserve Bank of New York. "I think he is a very fine human being and a high-quality professional," McDonough, who negotiated Corzine's rescue of Long-Term Capital Management last September, said. "Personally, I will regret that I will not be able to work with him as I did in his previous position."

That morning, Goldman Sachs issued a terse press release, announcing that Corzine "has decided to relinquish the CEO position and will remain co-chairman to help with the initial public offering of Goldman's stock."

CORZINE

After a week on Jan. 11, Corzine left the Street—and his corporate client to find a new home. He might take his family elsewhere.



READY FOR THE IPO?

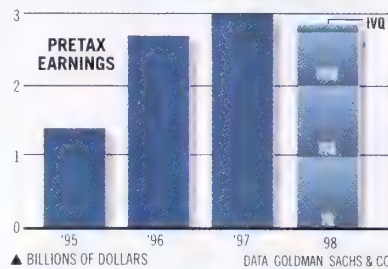
GOLDMAN ACED THE COMPETITION...

Worldwide announced mergers and acquisitions—1998

	TOTAL BILLIONS	MARKET SHARE	NUMBER OF DEALS
GOLDMAN SACHS	\$960	38.2%	339
MERRILL LYNCH	645	25.6	336
MORGAN STANLEY	634	25.3	374
SALOMON SMITH BARNEY	465	18.5	322

DATA: SECURITIES DATA CO.

BUT EARNINGS STALLED LATE LAST YEAR...



...UNDERSCORING ITS DEPENDENCE ON TRADING

	NET REVENUE IN BILL \$		
	1995	1996	1997
INVESTMENT BANKING	\$1.6	\$2.1	\$2.6
TRADING/INVESTMENT	1.7	2.7	2.9
ASSET MANAGEMENT/SECURITIES SERVICES	1.1	1.3	1.9

*First half of 1998 DATA: GOLDMAN SACHS & CO.

which was postponed when the stock market plunged in August and September. The news about Corzine shocked the Street. Employees were "blown away," says one senior manager. Securities & Exchange Commission Chairman Arthur Levitt Jr. says: "I think he's probably as broad-gauged a leader as the industry has seen since [former Goldman Senior Partner] John Whitehead." Some Goldman clients were equally unnerved by Corzine's demotion, with one corporate client even saying he may take his investment banking business elsewhere. "My confidence in Goldman Sachs depends on my confidence in Jon Corzine," he says.

Insiders and competitors alike say Corzine was ousted in a coup within Goldman's all-powerful five-man executive committee. Corzine was forced aside by a troika of senior bankers: his co-chief executive, Henry "Hank" M. Paulson Jr.; Goldman's top investment banker, John L. Thornton; and Corzine's protégé, Chief Financial Officer John A. Thain. "Everyone liked Corzine. No one likes to see someone ganged up on," says one insider.

Yet talk to Paulson, now Goldman's sole chief executive and all is running like clockwork in Goldman's executive suite. Paulson insists that the changes have nothing to do with the IPO or the trading losses Goldman suffered last year. Paulson describes the management shakeup as an "evolutionary transition." He adds that Goldman just wanted to make long-planned changes before the firm went public. "We saw a window of opportunity and decided it was the best time to make that change," says Paulson. All Corzine will say is that he thinks this is in the best interests of the firm.

While Paulson may quibble with the word "coup," he doesn't really deny that one took place. "A group of members of the executive committee got together and made a management decision that we think is in the best interests of the firm in terms of how we manage the firm," says Paulson.

Whatever Paulson wants to call it, Corzine's ouster was a dramatic departure for the world's premiere investment bank, a firm that prides itself on harmonious relations. The move toward public ownership has brought to the fore-

GOLDMAN'S 'DEALMAKER SUPREME'

John L. Thornton likes to recall the days of the 1980s and early 1990s when he was instructing British CEOs in the fine art of defending their companies against hostile takeovers. Thornton played the general in some landmark battles, helping to frustrate legendary raider Lord Hanson in his bid for Imperial Chemical Industries and the Lloyds Bank raid on rival Standard Chartered Bank. The high-profile defenses helped transform Goldman, Sachs & Co. from a no-show in European finance to one of the two or three kingpins in the Old World's recent merger and equities boom. "We took something we were very well known for in the U.S. and transplanted it here," Thornton said in an interview.

Now, this Harvard- and Yale-educated investment banker appears to have helped engineer a hostile takeover at Goldman itself. He was an important player, observers say, in pushing Jon S. Corzine to relinquish his chief executive post. But above all, his new title of co-

chief operating officer is recognition for Thornton's success in establishing Goldman in the international sphere, where it now reaps about a third of its revenue. Thornton realized soon after joining Goldman in 1980 that Europe had huge potential. He talked his way over

Thornton relentlessly pursues the elite crowd, from Rupert Murdoch to William Clay Ford

to London in 1983 and has presided over the firm's growth from a few dozen to about 2,500 people in Europe. "Thornton is the dealmaker supreme," says a source close to Goldman. "He is the mastermind behind Goldman's success in Europe."

Associates say that an important in-

gredient in Thornton's success has been his determined pursuit of rich and powerful. Thornton has his minions that there are only a hundred CEOs and other key makers around the world who can man's trouble. He has ingrained himself with an elite crowd that includes media magnate Rupert Murdoch, Motor Chairman William Clay Ford, Hong Kong billionaire Li Ka-shing, Percy N. Barnevik, chairman of Asea Brown Boveri.

CONTROVERSIAL. This appeal with smart, tactical advice has come handsomely. Thornton and his associates have become Murdoch's chief advisers. Goldman is arranging Sky Broadcasting's \$1 billion takeover of the Manchester United football club. And in 1994, Thornton persuaded reluctant Murdoch to take a stake in Star Television Ltd. off the back of Ka-shing for close to \$1 billion.

In 1996, he also took charge of where Goldman was struggling

The new troika once strongly opposed the IPO. Will they now have the credibility to take the firm public?

nerally had remained suppressed. A key example is the between the trading and investment banking divisions, their very different cultures. Corzine is a trader. Paulson and Thornton are career investment bankers. Thain is a hybrid, working as both a banker and trader. In planning for an IPO, they knew that securities firms focused on stable revenues, including investment banking fees, are accorded high multiples than those that rely on high-risk trading. But a piece of Goldman's earnings come from proprietary trading, says one analyst: "Embedded in the center of Goldman is a hedge fund." No surprise, then, that Paulson and Thornton, along with Thain, wanted to put as much of an investment banking face on the firm as possible.

KEY RELATIONSHIP. Yet this strategy raises several problems for the future: Can Paulson, Thornton, and Thain pull the firm together? Will the messy coup alienate clients? Should the firm curtail its usually remunerative proprietary trading operation? Most important, can the firm maintain its primacy in an increasingly ruthless competitive arena?

Several factors contributed to the erosion of Corzine's power, and the culture gap, he and Paulson had a rocky relationship, despite Goldman's constant pitch about their teamwork. The tension made it harder to deal with related mistakes in 1998. True, the firm earned near-record pretax profits of almost \$3 billion, with a hefty chunk from investment banking. But Goldman's vaunted ability to take risk took a hit as it lost an estimated \$500 million to Russia when the market cratered last summer. Corzine played a lead role in the Long-Term Capital Management debacle because of Goldman's own exposure. He bid for the

overleveraged hedge fund and then shelled out \$300 million for the rescue. And after finally announcing that the firm would go public in June, 1998, Corzine was forced to pull Goldman's offering in September.

Add to all that the discontent of the investment bankers. They were unhappy that their lush profits got flushed down the toilet in the bond market fiasco. In mergers and acquisitions, Goldman's bankers blew the lights out, leaving competitors agog. Goldman racked up \$960 billion in global deals, which was almost three times its 1997 record total. Still, Goldman's pretax earnings were down 81% in the fourth quarter, while those of rival Morgan Stanley Dean Witter were up 6%.

The most pressing issue now is whether the new management team can pull off Goldman's long-delayed IPO. Paulson says it's definite: "We are going to go public," and "we will be disappointed if we

Cover Story

don't get a deal done in 1999." On the face of it, the management shakeup sends a mixed message about whether Goldman will go public. Corzine is the one most closely associated with the firm's wrenching 1998 decision to do so. As far back as 1986, he began championing the idea and ran into stiff opposition from the three men who are now running the firm. Paulson, Thornton, and Thain believed that by going public, Goldman would lose its unique partnership culture.

Goldman has gone too far down the road toward becoming a public company to turn back. Now, the triumvirate must wrestle with the same problem as Bankers Trust and J.P. Morgan face: Too much of their profits comes from risky proprietary trading, or trading for the house account. Says

major deals, including the public offering ever, last year's IPO of NTT DoCoMo, a mobile-phone company. Paulson's ascent to co-CEO is reminiscent of an executive whose career was entirely outside of the U.S. For promotion, he plans to stay in Europe, where his wife and three children live even when he was in Asia. He has more than his share of the blame for the problems among them is Charles D. Calomiris, CEO of Imperial Chemical, who has a series of deals with the firm in the past decade. "He has the heart of the issue and he wants to see if there is a deal or not," says Thain.

For the firm, though, Thornton is the key. His high profile and ready access to his colleagues' turf run counter to the firm's vaunted team approach. Critics say he is a poor negotiator, and that there is a cultural clash between Americans in Europe. On the other hand, some of his European protégés have become big winners, such as Hans-Joachim Lauth, a German who rep-



THORNTON: Led global expansion

resented Daimler in its \$35 billion takeover of Chrysler last year.

Not all of his ventures have worked out either. His longstanding involvement with troubled British retailer Laura Ashley, where he serves as chairman, has been an embarrassment, with res-

cue plan after rescue plan falling flat. And the remaking of ICI is still far from a success. Goldman is said to have earned more than \$100 million in fees advising ICI on the \$8 billion purchase of Unilever's specialty chemical business in 1997. But planned asset sales have gone awry, leaving ICI with \$7.3 billion in debt and its stock depressed. Thornton insists that the Unilever deal was the right move for ICI.

HIGHER ASPIRATIONS. Much of Thornton's time of late has been spent on Goldman's IPO, which was pulled last September. Thornton opposed the move, and it is not hard to see why. He likes the freedom to maneuver that a partnership affords. Still, now that Goldman is reviving the IPO, Thornton is committed to helping push it through.

Thornton is tantalizingly close to the top job at Goldman. But associates note that Thornton, a Democrat, has made no secret of his political aspirations. At 45, he is a rich man with a solid résumé. Treasury Secretary Robert E. Rubin, a successful Goldman trader, has already shown the way.

By Stanley Reed in London, with Joyce Barnathan in Hong Kong

"If Jon had to get whacked, now's the right time. You want to do that before you go public," says one analyst

one analyst: "As a public firm, you suffer the J.P. Morgan phenomenon": the perception that Morgan is a trading machine. "The guy that had a lot to do with that was Corzine."

Investors penalize firms that depend on proprietary trading because it is so unpredictable, producing huge profits one quarter and huge losses the next. By marketing itself as an investment bank and deemphasizing its proprietary trading prowess, Goldman can sell its stock at a higher price (box). Investors are willing to pay more for the stock of companies whose earnings come from stable fees from commissions, mutual funds, and underwriting.

As Goldman gets set for the IPO, it may be better to have an

investment-banker CEO pitching the firm to investors than one who is a trader. "If Jon had

to get whacked, now's the right time. You want to do that before you go public. It helps your positioning in the road show," says the analyst. Paulson, a reserved, highly organized Midwesterner, is one of the best bankers in the business. He spent his entire career as a banker until being promoted to chief operating officer in 1994. "Jon is a brilliant, intuitive leader. Hank embodies a quality that distinguishes a Goldman banker. His ability to execute is legendary," says one Goldman partner.

Paulson says that he, along with Thornton and Thain, have been involved with trading as well as investment banking. Further, the firm has no intention of downgrading its trading businesses. "This is not about emphasizing one business to the detriment of the other," says Paulson. "Both businesses are very, very important to us."

For Corzine, a natural leader with a low-key, rumpled style, it wasn't supposed to turn out like this. After all, it was Corzine who stepped into the breach in 1994, when Goldman was struggling with trading losses and the sudden resignation of senior partner Stephen Friedman. Thirty-six other Goldman partners fled, taking their capital with them. Corzine was named chairman, and Paulson was his No. 2, though the two maintained that they enjoyed a partnership in the style of former Goldman chiefs Robert E. Rubin and Stephen Friedman. It was Corzine who stabilized the firm and helped it raise morale and profitability. He also instituted better risk-management procedures.

The experience left Corzine even more deeply convinced that Goldman needed to protect itself from market instability by going public and securing permanent capital—rather than remaining hostage to fickle capital that partners could withdraw. Paulson

never embraced the idea. On May 27, the executive committee decided to promote Paulson to co-chairman and co-CEO, just two weeks before the entire partnership was to go public. Some insiders and competitors say Paulson was bought—that he was promoted to be Corzine's backup for supporting the IPO.

While Goldman is a partnership, power is concentrated in the hands of the men on the executive committee. At the time of the IPO, there were six, with three for an IPO and three against. In 1998, Paulson's new support for the IPO broke the tie on the executive committee, sources say. Corzine already had the backing of Vice-Chairman Roy J. Zuckerberg and Vice-Chairman Robert J. Hurst Jr.

CIRCLING THE GLOBE. Paulson and others deny there was a quid pro quo. "Hank's elevation to co-CEO was the unanimous decision of the executive committee. I was not involved in the decision. I was going to do with whomever was going to support an IPO," says Robert J. Katz, Paulson's counsel. Further, Paulson told the meeting of all the partners last June that he did not support the firm's going public. Paulson was bound to carry out their collective decision.

In the following months, though, several factors weakened Corzine's hand. First, Zuckerberg retired from the executive committee on Nov. 27. And in August and September, Goldman was hit with huge trading losses. Part of the loss stemmed from Goldman's proprietary trading position. Long-Term Capital's crisis shook up the market, and Corzine got socked, since it had many of the same trading positions.

Corzine was at the heart of the Long-Term Capital crisis, marshaling the key Wall Street firms that chipped in to save it. While world financial markets were reeling, the \$300 million that Goldman ponied up for

Cover Story

HOW MUCH IS GOLDMAN WORTH? MAYBE LESS THAN YOU THINK

How much would Goldman Sachs go for in an IPO? Not an easy question. Goldman is unique.

You can't beat the name—which rivals Tiffany or Rolls-Royce for prestige. But the consistency of Goldman's earnings is suspect. Though the firm stresses its investment banking, much of its profits come from trading.

The result is that Goldman likely would be valued in the middle of the

Wall Street pack should it sell shares, says Raphael Soifer, analyst at Brown Brothers Harriman & Co. A Merrill Lynch & Co., he says, would command a higher multiple since it earns

more from steadier businesses such as fund management. But Goldman would be valued more highly than the smaller, less powerful company Lehman Brothers Inc.

And that leads to another question: Which multiple? Using price-to-earnings is fanciful because Goldman has yet to reveal its profits after going public. On the other hand, a price-to-book calculation is possible. Last year, when investment banks were trading at more than four times book value, Goldman would have been worth \$25 billion to \$30 billion. Now, its valuation would be lower. Consider that Merrill is only traded at 2.7 times book. At that multiple, Goldman would be worth only \$17 billion—or to put it another way, \$13 billion less than the market capitalization of Amazon.com.

By Gary Silverman in New York



PRESTIGE: New York digs



has her mother's eyes,

father's nose,

financial security from GE.

roducing insurance and investments from a
you can trust. GE.

ry step you take in life, you can trust GE to help. Over five
people already turn to the GE Financial Assurance family
panies for mutual funds, life insurance, annuities, long term
surance, supplemental health insurance and auto insurance.
n you think of insurance and investments, think of GE.

at www.ge.com/financial.



We bring good things to life.

URANCE • MUTUAL FUNDS • ANNUITIES • LONG TERM CARE INSURANCE • AUTO INSURANCE • SUPPLEMENTAL HEALTH INSURANCE
nd investment products available from the GE Financial Assurance family of companies. Mutual funds and variable insurance products are offered by Capital Brokerage
ber NASD/SIPC, and available through select broker dealers. Capital Brokerage Corp. does business as GE Capital Brokerage Corporation in IN, MN, NM and TX.

Why the investment bankers were upset: "Embedded the center of Goldman Sachs is a hedge fund"

cue—and possibly Goldman's and Warren E. Buffett's well-publicized bid for Long-Term Capital as well—did not endear him to his investment banking colleagues. "I assume that all the [Goldman] bankers hated" Goldman's taking a big role in the bailout, says someone close to Long-Term Capital.

Another long-simmering issue between Corzine and the troika was how the IPO process would be handled. Corzine was committed to having

Cover Story

about 200 voting managing directors cast ballots on the IPO, since they own the firm. However, Paulson and Thornton believed that this was too unwieldy and time-consuming an approach and that the executive committee should make a decision for the full partnership, say sources close to the firm.

In June, 1998, Corzine did put the issue of the IPO to the full partnership, and it was approved. But the process of Corzine and others circling the globe to meet with Goldman's far-flung partners to win their support for an IPO delayed the offering. After the markets crashed, Goldman was forced to cancel its offering, a major embarrassment to a firm that advises clients on IPOs. It was a humiliating experience for Goldman—an intensely proud institution.

LESS THOROUGH? Delaying the IPO may have damaged Goldman's reputation with clients, even though by that time, the firm had little choice. It may just be market sniping, but competitors in London think they detect a falloff in the firm's performance. They say that Goldman's senior investment bankers did not seem to be covering important clients with quite their usual thoroughness. Some sources say that not being chosen to represent BP, a frequent Goldman client, on the \$52 billion Amoco deal was a blow. Despite their huge success in M&A everywhere in the world, in the U.S., Goldman has slipped in the IPO rankings from No. 1 in 1997 to No. 3 in 1998, with market share falling from 15.7% to 9.4%, says Securities Data Co.

The hiatus certainly created major difficulties for Goldman internally. After going full steam ahead and grappling with the highly emotional issues of how to carve up the very fat Goldman goose among some 200 owners, an additional 345 managing directors, and 16,500 employees, delay was excruciating. Most key professionals had been told exactly how much they would make from the IPO—from \$200,000 to \$200 million. This accentuated the fault lines in the firm between the two tiers of managing directors, within the tiers of managing directors, and between the managing directors and the many driven professionals who staff the firm.

On top of that, long-simmering friction between Corzine and

Paulson increased, making it difficult for them to share job. By the week of Jan. 4, tensions had come to a head. A series of executive committee meetings, it became clear, Paulson was viewed as a better executor of the firm's strategy than Corzine and that he could work more smoothly with Thornton and Thain. The decision was made that Corzine would step down. On Jan. 11, the firm issued a press release saying the executive committee would be dissolved, that a management committee chaired by Paulson and in Thornton and Thain would take its place, and that Thornton would chair a new 15-person partnership committee. Corzine's name was not on the list of management committee members. "The view was that Jon would step down when the firm went public," says one insider. "And the view was that the executive committee should not happen now. They would do it now, and he didn't want to."

"DIRTY LAUNDRY." Until now, Goldman has escaped the normal scrutiny of public companies: no analyst reports, no shareholder meetings, no SEC filings. It allowed Goldman to maintain its private tique. "I've always been in Goldman's ability to keep the laundry private. So the story is that the laundry is getting washed in public," says a rival investment banker. "Goldman's firm has taken its share of knowledge."

Several Goldman partners were upset that Corzine's stepping down was a blow to the firm's ability to do with the delay of the

the trading. Further, these partners strongly object to the notion that investment bankers are rising at the expense of trade within the firm. "The firm is nervous," says one Goldman partner. "Goldman is back from its commitment to trading, especially

proprietary trading. One source says that proprietary traders have been

allowed to shift to other jobs at the firm so they don't lose their jobs and alert the market to the fact that Goldman is not a proprietary trading firm. Paulson says: "Proprietary trading is important to us; our strategy is to be a leading player in the financial flows for the benefit of our clients and our firm."

At least one former proprietary trader isn't going to stay where anytime soon. In a public company, Corzine would have jumped ship or been forced out. But this is a partnership whose members are bound together by their personal books. As one of Goldman's biggest owners, Corzine has hundreds of millions of dollars tied up in the firm. Despite the embarrassing public removal from the helm, he will stay on as co-chairman with the task of helping with the IPO. However, that IPO is received in the market may portend what Goldman can maintain its vaunted position in global finance.

By Leah Nathans Spiro, with Gary Silverman in New York and Stanley Reed in London

SHUFFLING THE DECK

SEPT. 13, 1994 Stephen Friedman, senior partner since 1992, resigns after big trading losses. Jon Corzine becomes senior partner.

JANUARY, 1996 Goldman partners vote against going public.

MAY 27, 1998 Executive committee names Henry Paulson co-chairman and co-chief executive.

JUNE 12-14, 1998 Goldman partners decide to go public.

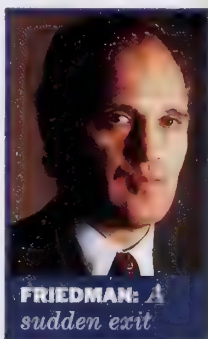
SEPT. 23, 1998 Goldman, along with Warren Buffett's Berkshire Hathaway and AIG, bid for Long-Term Capital Management.

SEPT. 28, 1998 Goldman postpones IPO plans.

DEC. 14, 1998 Firm announces \$107 million fourth-quarter earnings.

JAN. 11, 1999 Corzine steps down as co-CEO. Henry Paulson becomes chief executive. John Thornton and John Thain named co-chief operating officers.

DATA: BUSINESS WEEK



FRIEDMAN: A sudden exit



BUFFETT: A bid with Corzine



Vito Palermo, Senior V.P. & CFO
Metawave Communications, Inc.

How J.D. Edwards SCOREx is helping Metawave give cellular operators more airtime.

The cell phone business keeps Metawave hopping. They've from startup to star by supplying cellular with vital technology that packs more into limited airtime.

To run a supply chain that's as nimble as fast-growing business, Metawave looked to J.D. Edwards SCOREx (Supply Chain Optimization

and Realtime Extended Execution), supply chain software. A J.D. Edwards SCOREx supply chain is more efficient and more responsive because J.D. Edwards fully integrates order, delivery and customer service management.

J.D. Edwards SCOREx is easy to install, too. Integration partner Ernst & Young took Metawave from zero to sixty in less than six months.

For Metawave CFO Vito Palermo, the biggest improvement has been in responding to customer requirements. "J.D. Edwards SCOREx has given us the ability to be responsive to the dynamic changes in the global wireless communications market," says Palermo. That's how it ought to be. It can be for you, too. To find out more, call 1-800-727-5333 or see www.jdedwards.com/customer.

JDEdwards
Enterprise Software

How it ought to be™

Copyright © J.D. Edwards World Source Company, 1998. J.D. Edwards is a registered trademark of J.D. Edwards & Company.

ORACLE
Microsoft 
Solution Provider

BY GENE G. MARCIAL

ROBUST GROWTH IS IN CERUS' BLOOD

No, Cerus (CERS) isn't an Internet stock. But it has nearly doubled in just three months—from 11½ a share on Oct. 9 to 21 on Jan. 12. On Jan. 13, Morgan Stanley Dean Witter put the stock on its "strong buy" list, pushing the stock to 24½. And it looks poised to head even higher, argue some pros. Cer-

tain big investors have discovered Cerus, which addresses a tremendous global problem: blood contamination. Cerus is a pioneer in developing viral "inactivation" systems that act to decontaminate blood components and to improve the safety of transfusions.

Baxter International, a global leader in technologies associated with the circulatory system, has acquired a 17% stake in Cerus and has signed a strategic pact to develop and market its plasma-inactivation processes. And the Consortium of Plasma Science, made up of key players in the industry—including Bayer, Alpha Therapeutic, and Baxter—has also agreed to fund Cerus' development of methods to inactivate pathogens in plasma.

The consortium will provide \$2 million in the first year and then fund development through regulatory approval. "The clinical data have been compelling," says Katherine Martinelli, an analyst at SG Cowen Securities in Boston. The Food & Drug Administration has given approval for Phase III clinical trials on the inactivation system for platelets, which Martinelli expects will get under way in the first quarter. Similar tests are being done in Europe.

With some 60 million transfusions worldwide every year, the potential for Cerus' technology is enormous, says Martinelli. "We look for Cerus to receive approval overseas for its platelet system in late 2000, and in the U.S. by 2001," she adds. So revenues should ramp up in 2001, and Cerus should be

in the black by 2002, she says.

Analyst Kevin Tang of BT Alex. Brown notes that the technology has been shown in a number of clinical studies to be effective at inactivating pathogens without adversely affecting plasma or platelets. He estimates the market for Cerus' systems at about \$2 billion. Tang figures Cerus will earn \$2.41 a share in 2002 and \$6.56 in 2003, based on revenues of \$112 million and \$238 million, respectively.

FIRST UNION AIMS FOR THE TOP TIER

Ed Crutchfield is determined to accomplish one goal: Making First Union (FTU) into a nationwide company that blends commercial banking, investment banking, and capital management. "We wouldn't get out of commercial banking, but we'd like to be a Merrill Lynch as well," says Chairman and CEO Crutchfield, and "that's where we're headed." He says he wants to have the national franchise in banking that Wal-Mart Stores has in retailing. How to do it?

First Union is likely to get back on the acquisition trail. But with one condition: "No expensive or high-premium super acquisitions for us," says Crutchfield, a stance that has attracted analysts to rate First Union—almost unanimously—as a buy. "First Union is gaining respect for the quality and depth of the financial services it is building," says Sally Pope Davis of Goldman Sachs.

"We will only go for a merger of equals," says Crutchfield. Some of the "equals" that are believed to have shown up on radar screens at First Union: Wells Fargo and Bank One. Crutchfield declined to comment on whether he has approached either of these two banks. "Management continues to describe a merger of equals as the way to reach its national goals, as opposed to its historic strategy of building through small to midsize acquisitions," notes Diane Glossman of Lehman Brothers. Sandra Flannigan of Merrill



CRUTCHFIELD: "A merger of equals"

Lynch figures First Union will be \$4.33 a share this year, up from the estimated \$3.76 in 1998. Her price target for the stock, now at 62 a share,

WILL WEB BIGGIER SPY SPIEGEL?

Although it has been an Internet player for more than three years, Spiegel (SPGLA), a retailer of toys and home furnishings, was discovered by certain cyber-investors only in December. Its class-A stock jumped 3½ in early December to 7½ on Jan. 13. And Spiegel still has a ways to go, says a strategist for one New York investment bank. The stock could run again. Such a runup is based not on improving fundamentals, but on Spiegel is also whispered to be a takeover target: It could be worth according to this pro.

"If a large Internet marketer wants to increase distribution rapidly, Spiegel could make an excellent acquisition," says one California investment manager. Spiegel also owns a bank that issues credit cards—another potential add. With the sky-high price of Net stocks, he points out, Spiegel could be a cheap buy for an outfit such as Amazon.com.

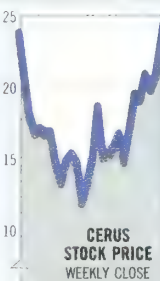
While Net sales account for a modest percentage of the total, such sales tripled during the recent holiday season. Investment manager Mark Boyar believes Internet sales could hit \$300 million, or 10% of the total, in a year. Spiegel posted total sales of \$2.6 billion for the year ended in 1999. The company, however, is still in the red.

Spiegel markets its products through mail-order catalogs, four Web sites, more than 550 retail stores, a TV Catalog and its Eddie Bauer unit. It also offers merchandise on America's largest shopping channel.

BusinessWeek ONLINE

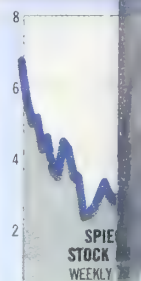
For more coverage of the market, visit our Web site at businessweek.com.

THE PULSE IS PICKING UP



▲ DOLLARS
DATA: BLOOMBERG FINANCIAL MARKETS

WHISPER HAVE STAYED



▲ DOLLARS
DATA: BLOOMBERG FINANCIAL MARKETS



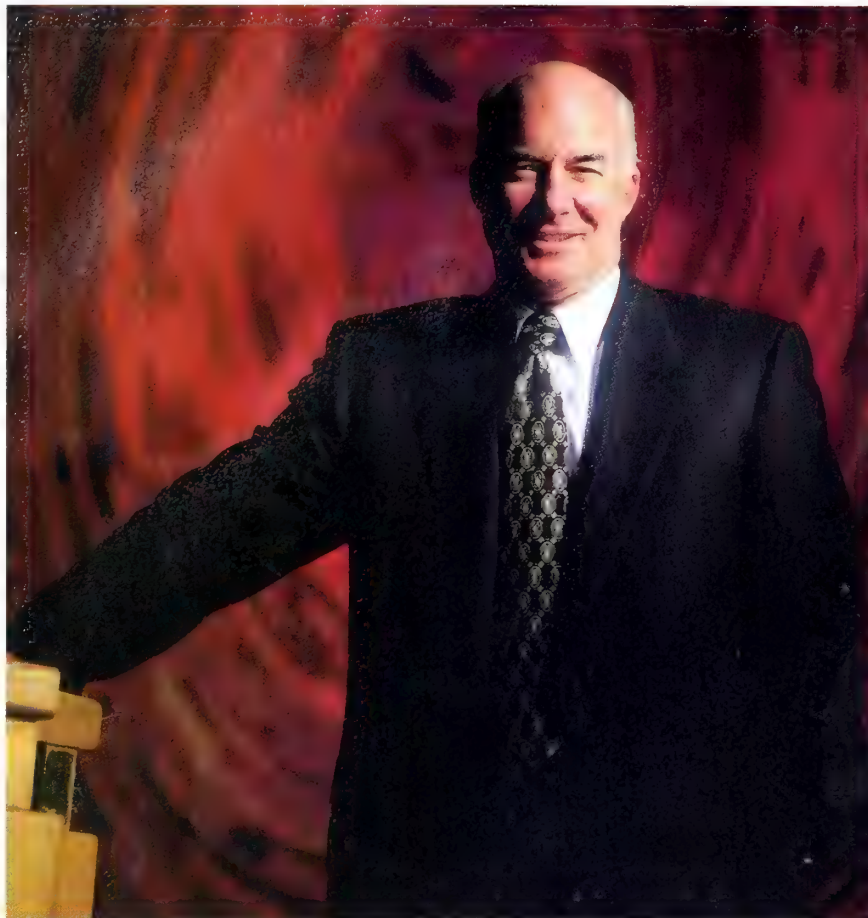
All notebooks
travel.
Is there one
that soars?

Unlike other so-called "highly mobile" notebooks, the Compaq Armada 3500 doesn't swap performance for portability. Designed for the savvy traveler, its topflight specs include a Mobile Pentium II processor soaring to 300 MHz—in a sleek package

light as 4.4 pounds. With built-in 6.4 GB hard drive, full-size keyboard, extended-life battery option and extra-durable magnesium display casing, the Armada 3500 has everything you need for maximum flexibility—and unlimited mileage. To learn more, call 1-800-AT-COMPAQ. Or visit www.compaq.com/soar.



COMPAQ Better answers.™



TELECOMMUNICATIONS

MIKE ARMSTRONG'S STRONG SHOWING

AT&T's boss has—surprise—kept his promises to investors

When AT&T CEO C. Michael Armstrong laid out his strategic vision for Wall Street a year ago, several analysts sniped that most of his plans had been tried before—and had failed. One glaring example: In 1995, Robert E. Allen, Armstrong's predecessor, had made the same pledge that Armstrong was making to cut costs by eliminating jobs at the long-distance giant. Allen, as it turned out, wound up increasing the size of the payroll. Would it really be any different under Armstrong? "I'm not sure we have a history, but we're going to have a future

of having a commitment culture," Armstrong vowed at the time.

Surprise, surprise—Armstrong is emerging as AT&T's long-awaited promise keeper. Of the major commitments he made to investors last January, he has delivered on nearly all of them—and gone a step beyond in a few key areas. Numero uno: He said he would cut 15,000 to 18,000 jobs in two years; instead, he wiped 18,000 off the books in a year flat. He also has made gale-force headway in moving AT&T into the \$100 billion local phone market, improving global operations, boosting profitability in the wireless business, and making AT&T a

major Internet player. "The management suffered from making a lot of false promises," says Stuart Rad, managing director at Bank Securities Inc. "Armstrong has done what he said he would do."

And investors are loving the much-needed boost in AT&T's confidence. It has helped push its stock to an all-time high of 85¢ on Jan. 11. The company's return to shareholders since its last meeting a year ago has been 34%, compared with a 34% return for Standard & Poor's 500-stock index. "Armstrong's one of the more aggressive management leaders out there," says Jeffrey Heil, director of investments for the University of California, which holds about \$600 million in AT&T stock.

Armstrong's success has prompted him to put aside a plan that would have softened losses. Once he shocked Wall Street by deciding to issue a "tracking stock" for his

HEADWAY
Armstrong has made deals and cut jobs, but the telecom giant isn't out of the woods yet

long operating unit to provide local service over a network of providers. Telecommunications which AT&T is acquiring. The business is sure to be a huge money maker for several

So AT&T had originally wanted to keep out its financial results to avoid a drop in the overall company's performance over the Christmas holiday. Armstrong and top execs decided against it. Why? Investors now have enough confidence in AT&T that they'll accept short-term losses for long-term gains. Armstrong declined to comment on the article because of the TCI filing.

MONEY AND TIME. No question, Armstrong still faces staggering challenges. AT&T's core long-distance operation accounts for nearly 90% of its revenue and continues to look like a Titan in making. Particularly vulnerable consumer long-distance businesses are predicting that prices could drop an average 15¢ a minute too soon within two years. Worse, as the Bells and aggressive newcomers Qwest Communications International enter the business, AT&T could lose its share of the market slump from 50% today to 30% in three years, analysts say. "They're going to see enormous losses on profits in their cash cow business," says Joseph P. Nacchio, Qwest's former top AT&T executive.

Knowing that time is short,

YOU'VE GOT TO SEE IT IN

EPSON

COLOR.

HERE YOU SEE
THE HEAVYWEIGHT
PROJECTION.

HERE YOU SEE
THE FEATHERWEIGHT
PROJECTOR.

Wow! That's what your audience will feel when they see this incredible new projector in action. Because instead of having just one imaging processor like other ultraportables, the PowerLite™ 5500C has three. 650 ANSI lumens of light in 9 1/2 easy-to-carry pounds. With all that portable power, you won't just dazzle your audience, you'll knock them out.



Epson PowerLite 5500C

THE NEW POWERLITE 5500C ULTRAPORTABLE PROJECTOR. 3 LCDs BRIGHT - 9 1/2 LBS LIGHT.

Epson®, the world leader in high-performance portable projectors, brings you a full-featured ultraportable with: exclusive SizeWise™ technology that allows compatibility with computer resolutions up to 1024 x 768 • Zoom lens, remote control and amazing SRS 3D sound • Dedicated phone support and RoadService exchanges, usually within 24 hours.

For more information or a free video on Epson's award-winning line of projectors,
call 1-800-442-1977 (ask for Oper. 3111) or visit www.epson.com.

EPSON is a registered trademark of Seiko Epson Corp. PowerLite and SizeWise are trademarks of Epson America, Inc. ©1998 Epson America, Inc. Projected image simulated for publication

The company is so serious about cyberspace that it has 2,000 AT&T Labs researchers working on Net technology

strong is barreling into more promising markets, no matter the risk. For example, he's betting he can deliver local phone service and high-speed Internet access over cable-TV networks. That's why he agreed to buy TCI in a stock swap valued at \$48 billion last June. (The value has risen to \$57 billion with the rise in AT&T's stock.) There's just one scary detail: Cable telephony is largely untested. "It's going to take a lot of money and a lot of time," predicts Timothy F. Price, the president and CEO of MCI WorldCom Inc.'s Communications Div. "I'm sure glad it's them and not us."

Pshaw, says Armstrong, who is busy doubling his efforts. On Jan. 8, AT&T announced agreements with five smaller cable companies so it can deliver services to 5 million homes in addition to the 17 million TCI customers. And AT&T is continuing to negotiate a similar deal with cable giant Time Warner Inc.

BIGGER BILLS. The dealmaking hasn't stopped there. After confessing to analysts a year ago that AT&T's international operations weren't delivering high-quality services to corporate customers, Armstrong quickly set about fixing things. In July, he negotiated a joint venture with British Telecommunications PLC. By combining the two companies' resources, the duo should be able to buy or build a high-quality international network. And Armstrong bought IBM's Global Network for \$5 billion in December, giving AT&T the network to deliver voice and data services in 59 countries.

Armstrong also is boosting the company's wireless business. A year ago, he promised to improve profitability by attracting high-revenue customers—even if the effort cost him revenue growth. With its innovative Digital One

Rate, which carries no long-distance or roaming charges for cellular customers, the average subscriber bill rose to \$58 a month in the third quarter from \$50 six months earlier. What's more, the company's wireless revenues for the third quarter jumped 19%, to \$1.4 billion—matching the industry's growth rate. "They're setting the pace for everybody else," says Jane Zweig, executive vice-president at researcher Herschel Shostack Associates.

ing the Web chat on the phone exchanging phone numbers. AT&T negotiating with America Online provide similar services.

URGENCY. Armstrong isn't there. When the company begins offering telephone service over cable networks later this year, it will use protocol (IP) technology rather than traditional circuit switched. That will make it possible for AT&T to offer a host of innovative Net

How Armstrong Has Made Good on His Word

	PROMISE	RESULT
COST-CUTTING	He would cut 15,000 to 18,000 jobs in two years to reduce AT&T's overhead to the industry average of 22%.	By offering rich severance packages, Armstrong eliminated 18,000 jobs in one year and is close to his overhead target.
LOCAL PHONE SERVICE	He would get into the \$100 billion local phone market for business and residential customers.	He bought Teleport to serve business customers and plans to acquire TCI to attack the residential market. He has also cut deals with five TCI affiliates to provide telephone service over their networks.
WIRELESS	He would accept below-industry average revenue growth while attracting high-profit customers.	With the help of Digital One Rate, which carries no long-distance or roaming charges, AT&T Wireless is matching the industry growth rate—and attracting profitable customers.
INTERNATIONAL	He would increase the quality of telephone service that is delivered to corporate customers overseas—long a problem for AT&T and other U.S. carriers.	He did a joint venture with British Telecom in July to capitalize on the British company's global reach, resulting in better service.

Little noticed among the flurry of deals is how Armstrong is putting together the pieces to make AT&T a cyberspace colossus. With the TCI purchase, AT&T will get majority ownership of @Home Corp., which provides high-speed Net access over the cable network. That's in addition to AT&T WorldNet, its dial-up Net service with 1.4 million customers. Still, AT&T wants to provide more than Internet access—it hopes to become the communications provider of choice for major Web sites. That's why it has cut deals with Yahoo! Inc., Lycos Inc., and other Internet portals to provide services such as Chat'NTalk, which lets cybernauts surf

Customers. In ample, could their voice from an AT site. "The d over inside said Daniel man, pres AT&T World vice, in an interview. "focusing al sources Indeed, all the AT&T researche noodling o2 technologie That's g

Armstrong of urgency ing AT&T do nesses with prospects tar distance. He ing not only Net but al cal, wireles a ternational to kick-st enues. "Stac ly, he's filling the holes, but the major hold Deutsche Bank's Conrad.

Armstrong's work is far from it. After striking all his deals, he has to make them work. Competitors in company remains handicapped by costs and old technology. "The ist aren't terribly worried about can with AT&T even a year after Aas has been there," says Nacchio. It strong vows that, once he's done, will have the lowest cost network industry. Given his track record promises, maybe competitor s start worrying.

By Peter
in 20

**IT'S PAINFULLY SLOW,
LEAVES A SLIPPERY TRAIL,
AND HIDES UNDER A
TOUGH SHELL.**

**MEET THE MOST
COMMON SPECIES OF
BUSINESS SOFTWARE
COMPANY.**

(DILLIUS DALLIUS IMPLEMENTUS)

glance, all software companies look
nimble. Then the implementation
t. Or their technology trails. And you
what kind of species you're really
with. At Lawson Software,
our customers on the leading edge
nology is one of our biggest strengths.
ovative business management systems are
to utilize web technology, enabling
tomers to share information more
nd cost effectively. And Lawson is
to offer Self-Evident Applications,[™]
eneration of enterprise software that
ally eliminates training costs. At the



same time, we're known for having one
of the shortest client/server implemen-
tations in the software industry. How
are we able to do it? By designing
our financials, human resources,
procurement and supply chain process
suites to be open to all major technologies, we're
able to make complex installations faster
and easier. And we can offer our customers the
flexibility to move to the next database,
user interface, network or hardware platform
that comes along. For a whole new species
of software company, visit Lawson Software at
www.lawson.com/guide or call 1-800-477-1357.

LEADING EDGE TECHNOLOGY WITHOUT THE ATTITUDE[™]

Software

LAWSON
Software[™]

AUTOMATION

THE SHAPE OF ROBOTS TO COME?

A software developer envisions self-directing cubes

Call him the Pablo Picasso of robotics. Joseph Michael's world, after all, is cubist. By patching together robotic cubes of different sizes, the founder of Robodyne Cybernetics Ltd. in London envisions new families of smart machines for a host of jobs—from fighting fires and inspecting the inside of pipes in chemical plants to building structures in space or products in factories. That includes cloning themselves, manufacturing new generations that would become ever cheaper and smaller—tiny enough, ultimately, to battle disease inside the human body.

Mixing sizes of cubes can yield endless variations. Some resemble insects, others look like forklifts. And the clusters can morph when the cubes slide over and around one another, using grooves on their surfaces. Each robot cube would get its own microchip brain, a communications system for talking to the other cubes in a cluster, and a motor. Most would have ports for attaching mechanical fingers, tools, or wheels.

Michael calls the concept "fractal shape-changing robotics." He has been honing it since high school, after his family emigrated to Britain from India 27 years ago. He got serious about the idea after graduating from the University of Hull in 1984 and filed for his first patent in 1994. Since then, he has plowed every spare penny into his robots—close to \$200,000 in total.

An independent software engineer, Michael says he makes "a very good middle-class living" writing programs. But you would hardly know it from the two houses in North London where he lives with his parents and a brother. Machine tools, motors, and other robot parts litter seven rooms and a basement workshop, along with two dozen prototype cubes ranging in size from 10 inches per edge down to 5 inches.

TEXANS INTERESTED. Marketing, though, has gotten short shrift. So while Michael has won prizes at six industrial competitions since 1995—most recently at last May's Invention/New Products Exposi-

tion show in Pittsburgh—his work is not well known. Robot experts who have toured Robodyne's Web site (www.robodyne.com) point out that similar, so-called reconfigurable robots capable of repairing themselves, have become a hot topic, and some say Michael brings little new to the party. But Jing Xiao, director of the National Science Foundation's robotics program, says she is "quite impressed" by the versatility of Michael's fractal approach.

The market may soon resolve the disagreement. NanoTechnology Development Corp. (NTDC), a Houston startup,

has purchased the first fractal license. Its initial goal is a bridge system for use in the wake of disasters. A bunch of big cubes be trucked to a collapsed bridge; bots would "crawl" across the caved-in section of the bridge, then lock together to form a rigid structure.

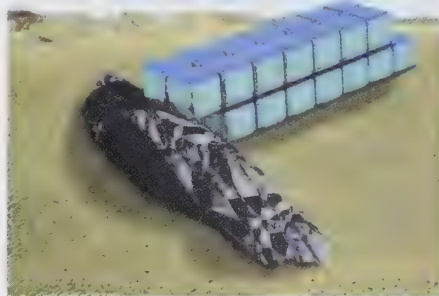
Bridge-building is just for a start, though, says NTDC President M. Forbes. The ultimate payoff will come when the robots are outfitted with sensors and installed in factories to make copies of themselves. A factory with a few robot workers, say, would crank out clones until there were enough to create a duplicate, but smaller version of itself. The result would be 1-micron cubes, just a tiny fraction of the width of a human hair.

Clusters of such robots could be programmed to navigate blood vessels to excise cancer cells, says Michael. Or they could be used to build robot factories the size of a grain of sand. They would also serve up a cornucopia of other applications.

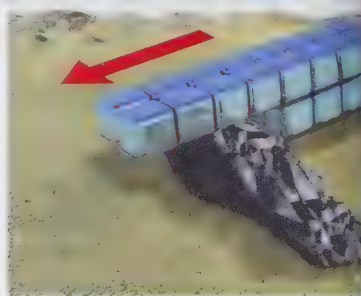
A BRIDGE THAT ENGINEERS ITSELF

Smart cubes could rearrange themselves in endless configurations to perform a multitude of jobs, including construction

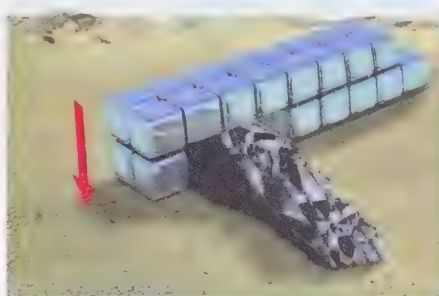
1. A group of cube robots approaches an obstacle, such as a landslide, chasm, or river. Cubes in top layer bolt themselves together to form a rigid platform.



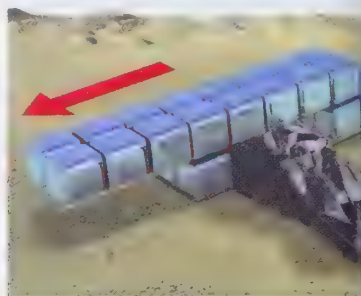
2. After the top-layer platform slides over the obstacle, the cubes on the end lower detach themselves to form a bridge foundation on the left side.



3. More cubes climb up and hook onto the right end of the top layer. This top layer pushes ahead across the obstacle, to shift more cubes to the left.



4. The process can continue until all cubes have crossed over. Or the cubes can form a temporary or permanent bridge in the wake of a natural disaster.





Connect with Asia

NTT — The ideal choice for *reliable* communications.

Arcstar Advanced global communications from NTT.

rcstar offers you a uniquely *reliable* global connection. In fact, no one offers a stronger connection with Asia and the Pacific. In Japan, for example, NTT has been providing fully dependable communications for more than a century. As one of the world's leading telecom providers, NTT can provide you and your global offices with an unsurpassed level of service. From round-the-clock multi-language assistance and business support to emergency backup. Now, connecting with Asia is a simple matter of connecting with the right partner.



NIPPON TELEGRAPH AND TELEPHONE CORPORATION

Builders of the Infocommunications age

TOKYO • BANGKOK • HONG KONG • BEIJING • KUALA LUMPUR • MANILA • SEOUL • SINGAPORE • TAIPEI • TAIPEI • AMSTERDAM • BRUSSELS • DUSSELDORF • GENEVA • LONDON • PARIS • CHICAGO • NEW YORK • MOUNTAIN VIEW • LOS ANGELES • WASHINGTON D.C. • RIO DE JANEIRO • SÃO PAULO

For more information on how NTT can connect you, call 1-800-4-NTT-USA.

<http://info.ntt.co.jp/global>

Economic Vitality in a Volatile World

How Will the Americas Face the Challenge?

Find out by joining us at



The Global Challenge— Latin America in the World Economy

*March 24-26, 1999
Sheraton Bal Harbour Beach Resort
Bal Harbour, Florida*

Latin America's successful efforts at foreign debt reduction, liberalized trade, privatization programs, and deregulation of financial transactions have garnered international praise. Yet worldwide economic conditions are forcing Latin American economies—considered "hot" just one year ago—to withstand a capital freeze. How will the social, political, and economic fabric of the region endure this climatic shift?

Don't miss the broadest coverage and most insightful analysis of the challenges confronting the American Hemisphere. From the Asia crisis and the role of regional trading blocs, to multinationals and what is necessary to develop a truly sustainable economy—we've gathered the business, political, and economic leaders you need to hear—and meet—only at *The 1999 Business Week Americas Summit*.

BusinessWeek

AN ASSOCIATED PRESS COMPANY

sponsored by

AT&T

Global Delivery Services from the
United States Postal Service

Portel Networks

produced with the cooperation of
U.S. Department of Commerce
U.S. & Foreign Commercial Service

in association with
The Association of American Chambers
of Commerce in Latin America

Foreign Policy Magazine

The Harvard Institute for
International Development

The Institute for
European-Latin American Relations

Featured Speakers:



David D. Hale
Global Chief Economist
The Zurich Group



The Honorable
Thomas F. "Mack" McLarty III
former Counselor to
President Clinton and Special
Envoy to the Americas



The Honorable
Félix Peña
Undersecretary of Foreign
Trade, Argentine Ministry of
Economy, Public Works
and Services



Nancy Birdsall
Senior Associate
Carnegie Endowment for
International Peace; former
Vice President, Inter-American
Development Bank

Special Address By:



The Honorable
Andrés Pastrana
President of
The Republic of Colombia

Additional Speakers:

- The Honorable Bernard W. Aronson, Chairman, ACON Investments, LLC and Newbridge Andean Partners, L.P.
- The Honorable Alvaro García Hurtado, former Minister of the Economy, Republic of Chile
- The Honorable James R. Jones, former U.S. Ambassador to Mexico
- Felipe Larraín, Ph.D., RFK Visiting Professor of Latin American Studies, JFK School of Government, Harvard University; Director, Central America Project, HIID
- Jesús Seade, Assistant Director, Policy Development & Review Department, International Monetary Fund
- The Honorable Professor Paulo Renato Souza, Minister of Education Federative Republic of Brazil

Registration Information:

To register for *The 1999 Business Week Americas Summit*
for more information contact Julie Terranova,
Registration Manager,
Phone: 800-821-1329 (inside the U.S.)
212-512-2184 (outside the U.S.)

Fax: 212-512-6281
E-mail: julie_terranova@businessweek.com
Fax on demand: 800-821-1329, document #80

ALL INDEX FUNDS ARE NOT CREATED EQUAL

100% NO LOAD

T. Rowe Price Equity Index 500 Fund. For over eight years, our Equity Index 500 Fund has helped investors like you closely track the S&P 500®. Of course, all index funds are managed to mirror the index, but some succeed better than others. While many funds impose loads and some have expenses of as much as 0.89%,* our combination of no sales charges, competitive expense ratio with no 12b-1 fees, and efficient portfolio management offers performance that can maximize the potential of your investment.

We know you invest in a mutual fund for performance. But you also invest for convenience. That's why our funds are backed by a commitment to the services that make a difference—knowledgeable representatives, 24-hour access to your account by phone or the Internet, portfolio allocation tools, consolidated statements, and more. Add our low investment minimum of just \$2,500 (\$1,000 for IRAs), and you'll know why our Equity Index 500 Fund stands apart. As with any stock fund, there will be price fluctuation.

ASK
ABOUT
OUR

ROTH
IRA

**Call 24 hours for your
free investment kit
including a prospectus
1-800-541-6158
www.troweprice.com**

Invest With Confidence®

T. Rowe Price



*Source: Lipper, Inc. S&P 500 is a registered trademark of McGraw-Hill, Inc., and has been licensed for use by T. Rowe Price Investment Services, Inc. The Equity Index 500 Fund is not sponsored, endorsed, sold, or promoted by S&P, and S&P makes no representation regarding the advisability of investing in the fund. Fund formerly named Equity Index Fund. Read the prospectus carefully before investing. T. Rowe Price Investment Services, Inc., Distributor. EXF046035

Looking at B-schools? Make this your *first* choice



The only guide to feature accurate business school rankings and profiles by recent graduates and recruiters

- **NEW!** Expanded ratings of more schools than ever
- **NEW!** Rankings of GMAT prep courses
- **NEW!** Comparisons of application software
- **PLUS!** Candid comments from the latest graduating classes, students' quality-of-teaching ratings, starting salary & bonus averages for graduates, and much more



Available at bookstores everywhere
Visit us on the Web at www.books.mcgraw-hill.com

A Division of The McGraw-Hill Companies



MICHAEL: Design prizes, but lit

goods. "Anything you want, you're able to replicate" at home, he said.

McDonald is no wet-behind-the-ear idealist. He was Control Data's top man in charge of the supercomputer at NASA's Houston facility in the 1960s when NASA was racing to put a man on the moon. He was out of retirement by the promise of nanotechnology—building almost anything by manipulating individual atoms.

A key champion of nanotechnology is Eric Drexler, chairman of the Foresight Institute in Palo Alto, Calif. He envisions an atomic-scale "assembler" smaller than Michael's 1-micron robot. While such a robot is still in the realm of science fiction, Michael says his scheme could be launched today, since many applications don't need the ultimate 1-micron precision. **INVESTORS SOUGHT.** For example, microchips, appliances, and even cars could be designed faster with the help of the nanocubes. When managers need a physical model, the computer-aided design system could send the contours of a car-size cluster of cubes, which would then shift to reproduce the design.

But such dreams hinge on turning NTDC into a moneymaker. So far, it hasn't gotten past square one. To get on, it needs to raise \$300,000 to build its first cube factory. NTDC made an initial offering on the Internet last summer, but only sold up to 200,000 shares at \$5 each. A total of \$5,000 has been collected, admits McDonald. Partly that's because the shares were registered for sale only in New York. Forbes, who has sunk almost \$100,000 of his own money into the project, expects approval soon to expand the offering to other states.

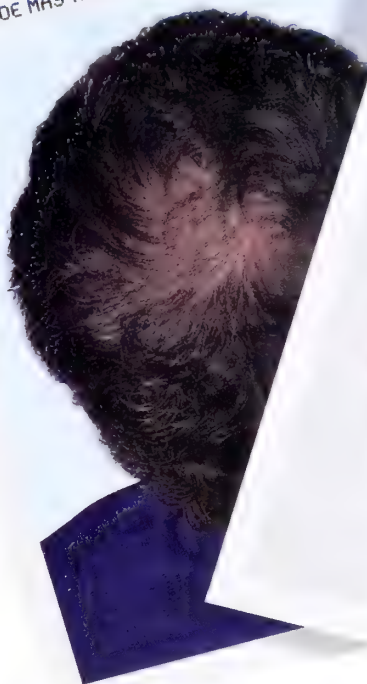
If NTDC can't raise the funds, McDonald says he will take his vision to the courts. If that fails, he vows to scrape together \$75,000 to construct a bridge-like prototype himself. Despite the setbacks, Michael still sees a cubist future.

*By Otis Port in New York
Heidi Dawley in London*

hey **ROGAINE!**

JOHN MCENROE MAY 1997

JOHN MCENROE NOVEMBER 1998



Nice **RETURN!**

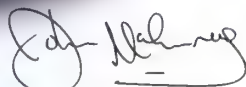
John McEnroe's hair is *back*!

Look at the pictures. John attacked his bald spot with **Rogaine Extra Strength** for Men. And he beat it.*

Is John the first man to snatch victory from the follicles of defeat using Rogaine Extra Strength? Far from it.

Fact is, for **4 out of 5 men** with moderate hair loss, Rogaine Extra Strength for Men is proven to regrow hair or at least stop hair loss.**

4 out of 5: those are nice odds. And when you factor in our Money Back Guarantee, you really can't lose!


John McEnroe, tennis legend

It works for you or your money back.

Give Rogaine Extra Strength a chance to work for you. Use as directed for 4 months. Then you be the judge. If you haven't begun to regrow hair by then, or at least stopped your hair loss, we'll give you your money back. Terms: Register with us and save original receipts and cartons. If not satisfied, submit your claim within 30 days after 4-month trial. One refund per household, up to \$135. For details see store or www.rogaïne.com.

**While most men will respond to Rogaine, most will not respond as well as John.*

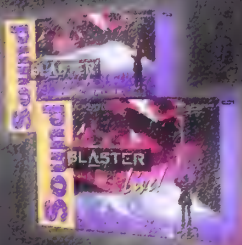
***About half of the men who respond to Rogaine have moderate to dense regrowth. The other half at least stop their hair loss.*

Use only as directed. Individual results vary. Not everyone responds to Rogaine.



Live the experience!

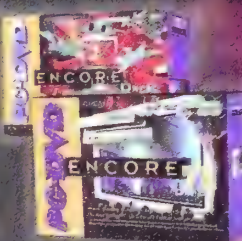
the Live! experience.



awesome
AUDIO



explosive
GRAPHICS



thrilling
PC DVD



sensational
SPEAKERS

It's a totally different way to stimulate your senses.

The Live! experience is a totally different way to interact with your PC. Our multimedia upgrade places you in places you've never been. It's seeing and hearing for the first time. It's being there without even leaving your seat. It's the adventure of a lifetime. Turn your PC into an extraordinary entertainment center at an incredibly affordable price.

CREATIVE

www.soundblaster.com/golive/

© 1999 Creative Technology Ltd. All rights reserved. Creative and Live! are trademarks or registered trademarks and are property of their respective holders. If you're not on the net, give us a call at 1-800-996-6227.

BY NEIL GROSS

MORE STEP RD IS VACCINE

BOARD APPROACH TO a vaccine is to select a substance from the outside of a virus or bacterium, and use it to prod an antibody into making an antiserum that can neutralize any strain of the bug. In 1987, scientists tried this approach on HIV, early in the epidemic, it failed. They used parts of HIV's envelope proteins, called glycoproteins, called gp120, which did indeed stimulate antibodies. But these antibodies did not match for the AIDS virus. A key reason, researchers learned, is that the virus changes shape as the antibodies bind to the cells it infects—and the antibodies are unable to block it.

What if antibodies could be generated against a new shape? A team of scientists at the University of California and New York University conducted an experiment, reported in the January issue of *Science*, in which they managed to capture the virus in the act of fusing with a cell receptor and then changed the new shape by directing it into mice. To the surprise of the researchers, this ambitious experiment worked," write the authors David C. Montell and John P. Moore in a companion commentary. Confronted with a new shape that offers a vulnerable attack site, the mouse's immune systems antibodies capable of binding a wide variety of viruses.

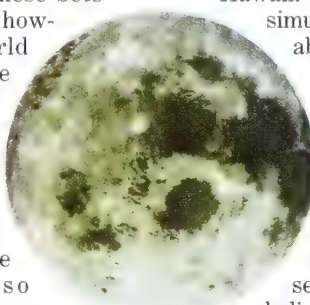
Scientists caution that a fully effective vaccine will have to stimulate production of killer T-cells, because the virus alone may not be

John Carey

HEAT AND LIGHT FROM THE FAR SIDE OF THE MOON

BILLIONS OF RESEARCH dollars have been invested in fusion energy—the nuclear reaction that keeps stars burning. For these bets to pay off big, however, the world could use more helium-3, an isotope that seems to be the optimum fusion fuel. Helium-3 is extremely rare on earth, so researchers are looking at the moon.

Helium-3 has many advantages over the radioisotope tritium, which is now the main fuel candidate. Helium-3 would give off very little neutron radiation when fused with hydrogen, so it would take longer for helium-3 fusion plants to become hazardous. They would also cost less. Another advantage over tritium: Helium-3 wouldn't



lead to by-products that are both toxic nightmares and vulnerable to theft by terrorists for use in weapons.

To secure a supply of helium-3, the U.S. Geological Survey has teamed up with space scientists at the universities of Arizona and

Hawaii. Their computer simulations point to abundant helium-3 deposits on the moon, particularly on the far side—enough to last for centuries.

How did it get there? Researchers say the helium-3 blows in on the solar wind, the stream of particles emitted by the sun's own fusion reactions. Because the moon is not sheltered from the solar wind by an atmosphere, helium-3 has been accumulating there, atom by atom, for millennia. Of course, mining the moon cost-effectively may prove nearly as challenging as perfecting a safe, economic fusion reactor. *Otis Port*

INNOVATIONS

■ On the Internet, everyone now knows you are a sheep—and quite a lot more—if you happen to be listed in Australia's new Web-based database aimed at breeders of high-quality merino sheep. For years, breeders down under have been meticulously evaluating



their sires. That information is now being placed online at <http://mss.anprod.csiro.au>, so breeders can select rams with, say, high wool weight, for heavier fleeces. Users can also study the genetic relationship among different traits to precisely tailor their flocks.

■ iAtlas Corp. of Laurel, Md., has a scheme for sharpening Internet search tools. The company has begun aggregating corporate data strewn across millions of Web sites—including sites that don't provide their own search functions. iAtlas has begun demonstrating a site with Inktomi Corp. that lets users slice and dice their search parameters through a dozen pulldown menus. The pages are prescreened to reduce irrelevant search results. In a few quick steps, for example, you can quickly identify and search all large law firms in the Boston area for a particular piece of information on intellectual property rights. iAtlas has applied for nine patents on its aggregation and search technology.

MAKING LIFE EASIER FOR DIABETICS

WITHOUT CAREFUL MANAGEMENT, DIABETES CAN LEAD to dire complications, including stroke, blindness, and heart disease. It affects an estimated 120 million people worldwide whose bodies don't produce enough insulin to regulate their blood-glucose levels properly. Many diabetics check their glucose levels frequently by pricking a finger to draw a drop of blood for analysis with a home testing kit. But some patients find this procedure uncomfortable and fail to test themselves regularly.

NEC Corp. wants to make life easier for diabetics. It has developed a new urine test that it claims can give accurate results at home in just 10 seconds. The tester is a pen-shaped device that contains a tiny glucose sensor covered by a semipermeable film. The film is highly selective: Glucose in the urine can penetrate it and bind to the sensor, but compounds that obscure glucose measurements, such as vitamin C, cannot. Researchers at NEC's Central Research Laboratories spent five years developing the device. It could be on the Japanese market later this year, pending approval by Japanese health authorities.

Irene M. Kunii

DRAWING A BEAD ON THE HEADHUNTERS

Federated sues a search firm for recruiting one of its execs

When Matthew D. Serra decided to leave his job as chief executive of Stern's, a unit of Federated Department Stores Inc., to become CEO of sports-shoe chain Foot Locker last fall, Federated didn't chalk up the loss to the combination of a hot commodity and a hot economy. Nor did it look inward to see how it could have better retained a key employee. It didn't even sue Serra for allegedly breaking his three-year employment contract.

Instead, Federated went after the executive search firm that recruited Serra to Foot Locker. In October, the company filed an unprecedented suit against Herbert Mines Associates Inc., claiming that it interfered with Serra's duty to fulfill his contract when it dangled a more lucrative offer from Venator Group Inc., Foot Locker's parent company, in front of him. Says a Federated spokeswoman: "A third party is not part of that contract and is interfering."

"VEXATIOUS AND SILLY." Beyond that, Federated refused comment on the suit. But its aggressive move is sending tremors up and down the swanky corridors of the country's leading search firms, since previous suits by jilted employers have targeted only the employee or the new company. While headhunters have been sued for raiding their own clients' talent pool or violating noncompete agreements by sending executives to rivals, none has ever been sued for doing what headhunters typically do: helping precipitate the breakup of a manager and his company. Says Scott A. Scanlon, chairman and CEO of recruiting industry consultant Hunt-Scanlon Advisors of Green-



wich, Conn.: "This lawsuit is a threat to the entire executive search profession."

Neither Venator nor Serra will comment on the suit, but Harold D. Reiter, president of New York-based Herbert Mines, dismisses it. "[The suit] is frivolous and vexatious and silly," says Reiter. "We abolished slavery 130 years ago." Still, search firms are watching the case—still months from trial—with

FEDERATED VS. HERBERT MINES

WHAT FEDERATED SAYS

Interfering with a contract between a company and its employees is like interfering with any other contract—and should not be allowed.

WHAT THE HEADHUNTERS SAY

We're simply offering executives what they deserve in a free society—job choice. The decision to leave is ultimately theirs.

trepidation. They fear a win could set a precedent in which anyone who leaves a contract-bound executive to greener pastures might be liable for leaving. Since many top-level executives have employment contracts, the suit has a chilling effect on how firms do business.

But not everyone thinks reprimanding the headhunters would be a bad idea. Some hope the case will lead to greater accountability for the profession. Currently, targeting an executive's employment contract is not an absolute no. Recruiters typically ask a candidate if he has a noncompete agreement with his current employer, and, if so, whether the company that wants to hire him. But they're not always legally to do more. A lawsuit opens the door to the question: "Where is the line?" Garry G. Mathias, a senior partner in a San Francisco employment law firm, Mendelson, says he "applauds it."

Federated's suit could also have a significant impact on the grappling with the problem of retaining highly skilled executives. It's a key issue at a time when explosive growth has many companies struggling to stem defections. Restricting headhunters would be one way, since most companies are on the sidelines of the issue. Sure, they can hang on to their own best people, but they also want to pursue outside talent. Indeed, one of the ironies of this case is that, according to Herbert T. Mines, chairman of Herbert Mines Associates, is that Federated has used search firms in the past to recruit outsiders using the same procedures it is now suing over.

Certainly Federated's suit paints a picture of a fairly aggressive search. Serra, a well-regarded executive who had been at Stern's since 1974, signed a three-year contract with Foot Locker in April, 1998. It stipulated that he would divulge trade secrets or go to competitors.

But after being contacted by Venator, Herbert Mines in the spring of 1998 decided to move to Foot Locker. He would work for Venator of N. Farah, who had been head of Federated's merchandising unit until 1993. Farah and Serra had worked together before: In the late 1970s, Serra reported directly to Serra at Stern Avenue. Mines says that Venator

If you could see into the future... how much money would you make?"

If you could glimpse through a crack in time...if you could flip through tomorrow's newspaper headlines...if you could see what the stock market had in store for investors...*would you look?*

Of course you would.

And would you get rich? Certainly you would have. Suppose, for instance, you would have known that buying just \$1,000 worth of a stock called Ballistic Recovery Systems in February 1996 would have yielded an 820% profit just 4 months later.

Your \$1,000 investment would now be worth \$8,200. Had you invested \$10,000, you would have walked away with \$82,000... *just 4 months.*

Likewise, what if you had known in advance about a company whose stock would skyrocket days after large earthquakes slammed cities on the Pacific Rim? Sure enough, you would have made 90% profits on Taylor Devices within months after the two major earthquakes that hit Northridge, California, and Kobe, Japan.

Today, their incredible "shock-absorbers" protect hundreds of multimillion dollar buildings all over California and Japan.

Of course, had you been able to "see" into the future, you also could have bought stock in Silicon Graphics long before they took over Spielberg engineer the mind-blowing computerized effects for *Jurassic Park*. And if you had done so, *you would have profited by 460%.*

The secret behind triple-digit profits

Quite simply, if you really want to make substantial stock market profits, you have to go beyond the tip of your nose. You have to know how to read the future.

Not just the trends or the forecasts. The global served up by your average news headline or TV talking-head coverage.

Instead, you make triple-digit investment profits by identifying the specific details of events and breakthroughs before they happen. Impossible? Not at all.

In fact, it's much easier than you might think. We've just finished 10 straight years of showing thousands of investors how. And now I'd like you to see these kinds of profits, too.

How to turn \$2,000 into \$9,420

You could have made 471% profits on a company called Mecklermedia. Just by sticking back in 1995, when *Taipan* advised readers how they would dominate then-new fields of "multimedia" and "advertising." Every \$2,000 invested would have ballooned to \$9,420.

And you could have turned that \$2,000 into \$24,000 in just 4 years if you had stepped in a then little-known New York publishing company called Aurora in 1992. Otherwise, we could have showed you how

to pocket 110% profits on a company called Orbital Sciences—just by knowing that a weird publicity stunt surrounding the funeral of LSD-guru Timothy Leary would make this company's stock skyrocket.

You also could have made 130% profits on the Mexico Fund—when we told investors it was time to sell, *just one month before the peso crashed in 1994.* Likewise, you could have made 900% along with us—just by knowing to sell shares of Noise Cancellation Technology before the meltdown. It's that simple.

In fact, you also could have made 142% investment gains in China...and another 232%, 271%, and 289% profits just before the takeover of Hong Kong. Just by knowing first that Asia's boom couldn't last.

And in fact, this is exactly what *Taipan* readers did. They also made 257% gains by shorting the Nikkei index in Japan...205% profits on a foreign retail chain called Cifra...150% gains on Trakya Cam...323% on Microvision...

And now you can do it too

Just by letting *Taipan's* uncanny view of the future show you when and how to invest. And you can do so quietly...quickly...and with near-certainty, using an approach that works naturally in good markets and bad. *And almost always in places you might never think to look for opportunity!*

This isn't smoke and mirrors. We've assembled an unprecedented personal network of scientists on the cutting edge...government insiders...aggressive traders working Wall Street, Chicago, London, and Hong Kong...and even our own analysts, whom we've sent (literally) as far as *Siberia* in search of investment opportunity!

Of course, this visionary approach isn't for everybody. It's just for those smart enough to understand how science...technology...and even politics...can shape the future of their investments.

For instance...

- Find out why *Taipan* experts are convinced that the next powerful earthquake in L.A.—not more than one year away—could cause *another* quake-protection tech company to take off.
- Find out which breakthrough biotech is most likely to create the cure for a terrifying new brain-melting "prion" protein strain that will otherwise leave the world medical community paralyzed. Find out how certain commodity investors will make a fortune on the coming rise and fall of La Niña-related crop disasters.
- Find out how secret military threats from China will cause the Asian stock markets' final collapse...discover how shocking new satellite

data prove that global-warming was a massive mistake (possibly even a conspiracy). And how the end result is going to make a few savvy energy stock investors very rich.

These are the new visions *Taipan* is sharing with today's smart investor. With experts in the field...scientific projections and proofs...details of these specific, controversial future events that will shock and enrich the portfolios of every investor who listens. *I sincerely think you'll benefit by joining them.*

Simply send me the reply coupon below. Or call our toll-free number. I'll send you two 100-page special reports that will show you the closely-guarded secrets behind this kind of forward-looking investment approach...as well as dozens of investments you should be getting into *right now.* I'll also send you *Taipan* every month for up to 24 months...and special password access to our private website and 24-hour investment hotline. But please, don't wait too long to accept my invitation. The future is practically here already...*don't let your chance to profit from these opportunities pass you by!*

J. Christoph Amberger

J. Christoph Amberger
Publisher, *Taipan*

100% Guaranteed No-Risk

YES! I want to glimpse the future...and add to my investment profits. Sign me up for 12 months of *Taipan*, plus all the membership benefits, for just \$89, a savings of 38% on the usual subscription price.

Best offer: Get 24 issues...all your membership benefits...and a special 42% savings...for just \$139.

REMEMBER—We'll also send you two 100-page special reports to get you started...plus your secret password for access to our private website and 24-hour investors' hotline!

☐ My check for \$_____ is enclosed.
(Please make payable to *Taipan*.)

Maryland residents please add 5% sales tax

☐ Please charge my: ☐ VISA ☐ MC ☐ AMEX

Card # _____

Exp. Date _____

Signature _____

Telephone # _____

In case we have any questions about your order:

Name _____

Address _____

City/State/Zip _____

Please return with your payment to:

Taipan, 1217 St. Paul Street
Baltimore, MD 21298-5984

Order Toll Free: 1-888-278-9481
Or fax your order: 410-223-2548

www.taipanonline.com/predictions/



Opening Doors to Art

Celebrate the opening of the
CANTOR ARTS CENTER AT STANFORD UNIVERSITY
(formerly the Stanford Museum)

COMMUNITY DAY

Sunday, January 24, 1999, 10AM to 3PM (*Admission is free*)

Dedication Ceremony at 12 noon

Entertainment, Refreshments, Collections in
18 Galleries and the Opening Exhibition
Picasso: Graphic Magician, Prints from the Norton Simon Museum

FOR MORE INFORMATION

Telephone: 650-723-4177 Website: www.stanford.edu/dept/ccva/

IRIS & B. GERALD CANTOR
CENTER for VISUAL ARTS

STANFORD UNIVERSITY

laboratories • AEGIS Insurance Services, Inc. • Air Products and Chemicals, Inc. • Akzo Nobel • Akzo Nobel N.V.
 Aluminum • Alcan Aluminium Ltd. • ALCOA • Allied Signal • American Express • American Greetings •
 n Home Products • American International Group • American Standard • Ameritech • Amoco • Amsted
 s • Anadarko Petroleum • Anheuser-Busch • ASARCO • ABB Asca Brown Boveri Ltd. • Atlantic Richfield •
 AXA Reinsurance UK • Ballast Nedam N.V. • Bank of America • Bankers Trust • BASF • B.A.T. Industries • Baxter
 mal • Beazlev • Bechtel • Becton Dickinson • BellSouth • Bestfoods • BetzDearborn • Boeing • Borden • BP
 • Bristol-Myers

British Petroleum
 e King • Cargill
 Carolina Power &
 eridian • Chase
 in • Chevron •
 • Chubb & Son
 • Citibank • CNA
 e • Coca Cola
 e-Palmolive •
 Coors Brewing •
 idustries • Credit
 st Boston • Crum
 • Dana • Darden
 nts • Deere &
 • Deloitte &
 Diageo • Digital
 it Corporation •
 er • E.I. du Pont

rs Company • Eastman Kodak Company • Eaton • Elf Atochem N.A. • Eli Lilly • Ernst & Young LLP • Exxon •
 asurance Group • Federal Express • Fina • Fireman's Fund • Ford • Gates • General Electric • General Mills
 Motors • Georgia Gulf • Georgia-Pacific • Gillette • Glaxo Wellcome • Goodyear • GTE • Halliburton •
 Cards • M.A. Hanna • Harsco • The Hartford • Hartford Steam Boiler Inspection & Insurance • H.J. Heinz
 • Hewlett-Packard • Hoechst Corporation • Holiday Inn • Honeywell • HSBC Holdings • IDEX • Imperial Oil
 ernational Paper • ITT • John Hancock • Johnson & Johnson • Kaiser Aluminum & Chemical • Kimberly-
 'MG • Kraft Foods, Inc. • Liberty Mutual • Life Insurance Company of Virginia • Lincoln National Corpora-
 g Island Lighting Co. • Louisiana Land and Exploration • Lyondell Petrochemical • MAPCO • Marathon Oil
 McDonalds • MCI • Medtronic • Merck • Metallgesellschaft AG • MG North America • Mobil • Monsanto •
 Motorola, Inc. • Motorola, Ltd. (U.K.) • NationsBank • Nationwide Insurance • Nestle S.A. • Nestle USA • New
 Northern Telecom • NovaCare • Orange and Rockland Utilities • Pacific Gas & Electric • Parker Hannifin •
 rgy • J.C. Penney • PepsiCo • PetroFina • Pfizer • Philip Morris • Philip Morris Europe • Phillips Petroleum
 Home Life • Pillsbury • Pioneer Hi-Bred • PPG Industries • Price Waterhouse • Procter & Gamble • Prudential
 ervice Electric & Gas • Raytheon • Reliance National Insurance • RJR Nabisco • Rockwell • Rohm & Haas •
 em • Safeguard Scientifics • SBC Communications, Inc. • Schering Plough • Shell International • Shell Oil •
 orporation • SmithKline Beecham • Sony Electronics • Southern California Edison • The St. Paul Compa-
 Farm Insurance Companies • Swiss Re America • Teachers Insurance & Annuity • Temple-Inland • Tenneco
 Texas Instruments • Textron • 3M • Toro • Toyota Motor Sales, U.S.A. • Travelers • TRW • Unilever United States,
 n Carbide • Union Pacific • Unisys • United Parcel Service • U S WEST • USF&G Insurance • USX • Viad • Waste
 ent • Wells Fargo • Westvaco • Williams Companies • Xerox • Zurich American Insurance • Zurn Industries

Is Your Company On This List?

The general counsel of these corporations are managing rather than reacting to their legal costs. They're using mediation and other cost-effective alternatives to litigation.

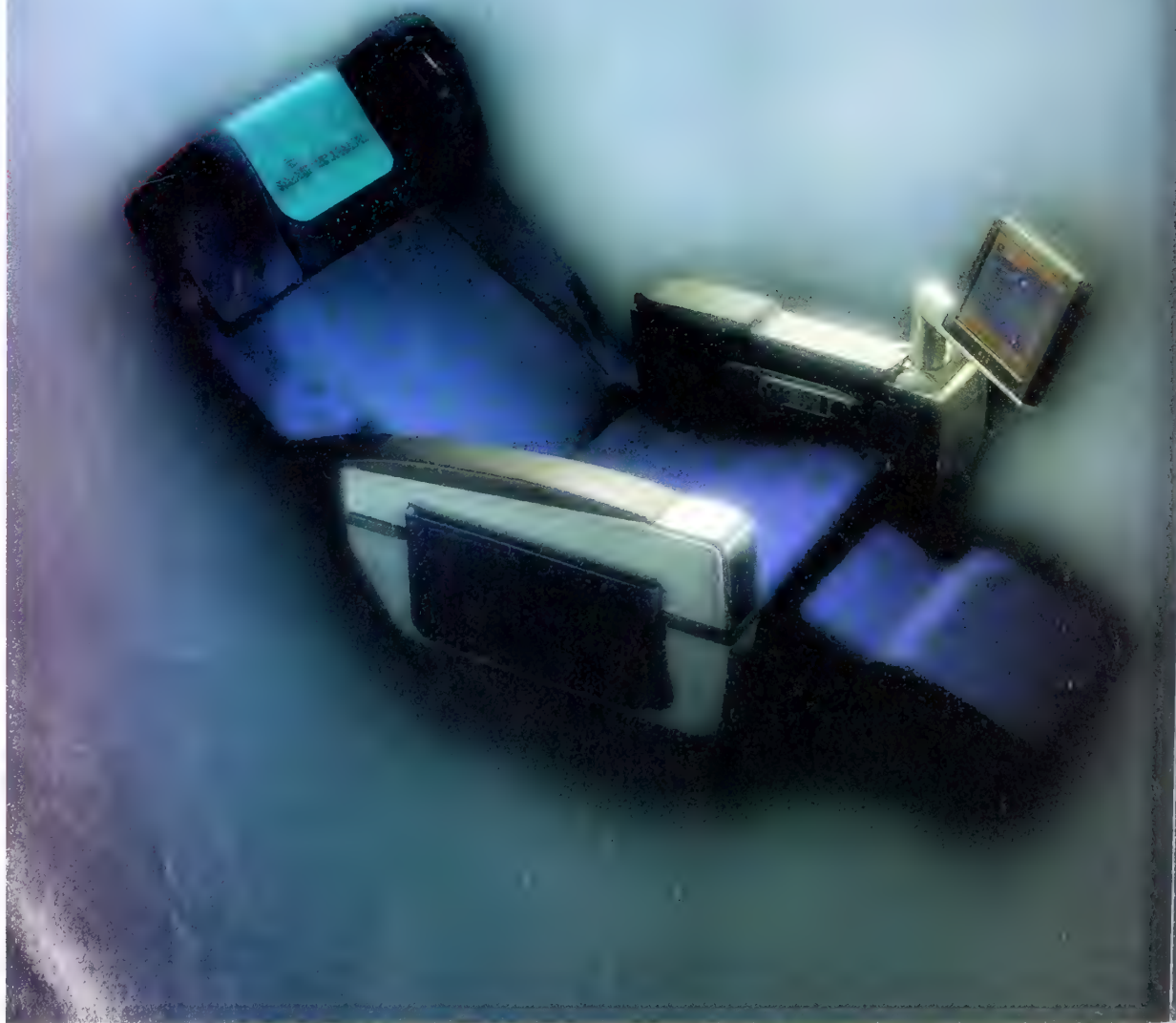
To learn more about this highly respected non-profit coalition of major corporations and firms, contact James F. Henry, President.

CPR Institute for Dispute Resolution

366 Madison Avenue, New York, NY 10017

Tel 212-949-6490 Fax 212-949-8859 Email info@cpradr.org

MALAYSIA AIRLINES
PRESENT THEIR LATEST FAX MACHINE.



Spotted it yet? It's there, in the seat. You see, with Malaysia Airlines you can now send a Faxgram* from the comfort of your seat. Just access your 10.4 inch* personal in-seat touch screen TVs - the largest in the sky - and anyone, anywhere is a fax away. Add 70 hours of

movies, music and games, an Interflora service, travel information, and news that's updated hourly, and you'll understand why our inflight experience has been consistently recognised as one of the finest in the world. Any wonder then, that more people are choosing to fly us?

* In association with British Telecom. Available on board B747-400s and B777s. ** Progressively being fitted to our fleet of B747-400s and B777s in First and Global Economy Class passengers enjoy standard-size.


<http://malaysia-airlines.com>

ich fatter pay package. He
erra provided a copy of his
Venator's lawyers to exam-
making him an offer.

ay also be a more personal
e seemingly straightforward
Farah left Federated to be-
of Macy's in 1993, Federated
or violating his noncompete
and prevented him from go-
k there for nearly a year.
weeks after he started, Fed-
ht Macy's. Farah quit, and it
t Mines Associates that ulti-
ed Farah at Venator.

? Federated has filed for
damages and an injunction
Robert Mines from ever con-
one at Federated. That has
conclude that their real goal
others away. "The point of
t even necessarily to collect
ut rather to ward off re-
m going after their people,"
A. Lord, president of Exec-
h Information Services, a
advisory service.

I. Cody, Federated's execu-
-sident for legal and human
ost no time in making sure
ters understood its position.
he sent out a letter to such
search firms as Heidrick &
nc. and Kenzer Corp. "A
ey executives are among its
ant assets..." it says. "By
ederated must take all ap-
tion to protect its valuable
its employment agree-
cluding legal action against
s who interfere with those
"

ort term, the strategy could
e enthusiasm of some re-
go fishing at Federated. J.
vin, vice-president at San
arch firm Seitchik Corwin &
, is doing a search in which
ome Federated candidates.
erred? Well, it makes me
nd time," says Corwin.

n, though, search industry
ave been quick to assume
ed can't win the suit, since
o favor the individual's right
John C. Coffee Jr., a corpo-
pecialist at Columbia Law
s it won't be dismissed im-
t sounds like a triable suit,"
t winning could create as
ms for Federated as it does
hunters. The retailer's own
uld face a backlash from po-
lidates unwilling to join
ar they may never be able



NET OPTIMIST:
Ziff CEO Eric
Hippeau

STRATEGIES

ZIFF-DAVIS IS PRINTING IN RED INK

Despite Web-site hoopla, the cyber-biz publisher is hurting

As the nation's leading media company dedicated to matters cybernetic, Ziff-Davis Inc. understandably caught the attention of investors when it launched an initial stock offering last April. After all, Ziff's 26 computer magazines, including heavyweights *PC Magazine* and *Computer Shopper*, lead the tech-magazine industry in ad revenues. The company has a tech-oriented television channel and dominates computer trade shows with 50 events a year, notably the fall Comdex extravaganza in Las Vegas. Still, by October, Ziff's stock price had seriously slumped, from the IPO price of 15½ to less than 4.

The problem was that for all its connections to the fast-growing industry, Ziff itself was in a slump. But it turns out the New York company has a safety net: the Internet, Wall Street's darling. In December, word that Ziff planned to

offer stock in its popular ZDNet Web site lit a fire under Ziff's shares. They soared 80% over three days, to 20%.

But the Internet halo effect is only obscuring Ziff's weak financial picture. Publishing still contributes two-thirds of Ziff's revenues—and there, it's gushing red ink. Moreover, the company took on a crushing debt load under its Japan-based parent, Softbank Corp., yet it's paying cash to buy subsidiary ZDTV from Softbank. And despite its wobbly performance, Ziff has shown a penchant for showering goodies on insiders.

SWEET DEAL Case in point: In September, with its stock swooning, Ziff slashed the exercise price for its executives to purchase stock options, from 16 to 6. Moreover, the favor was extended to five of nine directors—four company execs and one official at Softbank. Questions about Ziff and Softbank's financial

dealings exacerbated the share slide that followed the IPO. Says Charles Mehlhouse, a portfolio manager with Fortis Advisers Inc., which dumped 160,000 shares last summer: "We didn't like how they were doing things at all."

Why does Ziff appear to be in such sorry financial shape? For one thing, advertising in its computer magazines is

off since 1997. Falling retail prices for PCs have hurt small manufacturers and curtailed their ad outlays. In 1998, Ziff's ad revenue was down 7.6%, to \$653 million, says Adscope Inc.

BIG DEBT. That doesn't explain why Ziff has run four years of red ink while chief competitor CMP Media Inc. remains profitable—even though CMP's titles have endured their own ad falloff. The difference? Ziff has to service an onerous \$1.5 billion debt load. The borrowing spree started with the company's 1994 purchase by Forstmann Little & Co. from the Ziff family. It intensified with the 1996 sale to Softbank, which now owns 72% of Ziff.

The result: Ziff is barely covering its debt service. Add in hefty charges for Ziff's rich acquisition premiums, and the result is a 1998 loss of \$78 million, according to estimates by Merrill Lynch & Co. analyst Lauren Rich Fine. That's 10% worse than 1997's showing, on slightly lower revenues of \$1.1 billion.

Given Ziff's problems, some analysts are troubled that it is paying cash to buy assets from Softbank's CEO and controlling shareholder, Masayoshi Son. Ziff ponied up \$370 million about a year ago to buy ZDNet and other operations from Son's finance vehicle, MAC Corp. And now, Ziff is in the process of paying \$85 million to MAC for ZDTV. Ziff's rationale is that this will allow closer integration of its various tech-media properties.

It's easy to understand why Son needs the money. Dogged by Asia's economic distress, software distributor Softbank suffered a \$22 million loss in the six months ended last September. Though Softbank is sitting on unrealized gains from some hot investments—including an early stake in Yahoo!—that doesn't help its cash position. Son was not available to comment, but Ziff CEO Eric Hippeau defends Softbank's dealings. He notes that early last year, Son lightened Ziff's burden by forgiving \$900 million of Ziff's debt. "That was a big help," says Hippeau.



LOAN MAVEN: Softbank's Son

a higher interest rate. Ziff's chief financial officer, Timothy O'Brien, acknowledges that Softbank's loan had no such covenants. Says one portfolio manager who sold his Ziff stock last fall: "Softbank took care of itself at Ziff-Davis' expense." Moreover, Softbank's stake in Ziff is now worth more than \$1 billion.

Investors, troubled by the financial machinations and mounting losses, dumped Ziff shares through the spring and summer. Four separate class actions were filed, alleging that Ziff execs must have known before the IPO how poor the ad outlook was for the remainder of 1998. The company won't comment on the litigation, but the risks of possible ad softness were mentioned in its offering prospectus. The stock slide halted only after Ziff announced in October it would cut costs by trimming 10% of its 3,800 employees and closing three magazines.

OFF-TRACK. What really got the stock moving in December was news of the ZDNet stock sale. The deal is expected to raise \$114 million in March through the sale of a tracking stock that is supposed to mirror only Ziff's Internet operations. ZDNet furnishes just 2% of Ziff's revenues and is losing money. But investors think the popular site—which contains software, computer-buying help, and other tech information—has big potential to draw Web advertising. And ZDNet's losses are narrowing, to \$7.6 million in the first nine months of 1998. The site also has a growing audience. Its page views in October were up 76% from a year earlier.

But the real problem with the ZDNet offering is where the \$114 million is

headed—into Ziff's general corp pay down debt, not directly into the sexy Internet business. Robert Lehman Brothers Inc.'s corporate finance expert, says tracking stock proceeds almost always are restricted to the activity for which they're raised. "This is damn odd for Ziff to do," says Daniel E. King, an analyst at St. Securities Inc., a Chicago brokerage with a strong tech focus. He defends the move, vowing that management will ensure ZDNet gets the capital it needs.

PROFIT OPTION. Meanwhile, Ziff management has protected itself. Its stock dipped into the low single digits last fall, board members voted to give options for 800 Ziff managers and employees. The repriced options mean they can begin to exercise in 1999. They affect CEO Hippeau, three other executives who are directors, and Robert Fisher, head of Softbank's U.S. operations. At the current price of \$10, Hippeau's gain on his 1.1 million shares

is already worth \$11 million, more than it would have been without the repricing. In addition, Son and Ziff's finance chief, Y. Kitao, have been given the right to receive additional options. Hippeau says Ziff CFO O'Brien, though they have been elected not to take them. Exempted are independent directors.

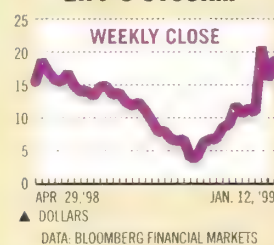
Hippeau and Ziff's independent director Lazarus, a former Microsoft executive, are defending the repricing as a way to keep talent from leaving the ship. But being the beneficiaries of the repricing, Ziff's independent directors, Ziff is turning new gray hair into compensation.

Graef Crystal: "For a board, the potential for conflict of interest is high."

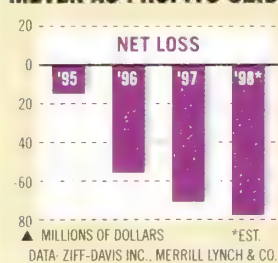
Hippeau insists Ziff's current problems will pass. Once computer prices stabilize and advertisers return to the sidelines, he says, publishing will be back. Plus, he's counting on forays into Internet and TV to push Ziff's growth. Trouble is, that won't happen in 1999. And Hippeau concedes magazine prospects for 1999 remain lousy. All the excitement over a Web site can't make up for the fact that Ziff's shiny model of corporate prosperity is wavering on the screen.

By Larry Light in New York

INTERNET FEVER LIFTS ZIFF'S STOCK...

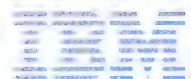


...EVEN AS PROFITS SLIDE





ALL. DESIRABLE.
T ENOUGH ABOUT THE PRICE.



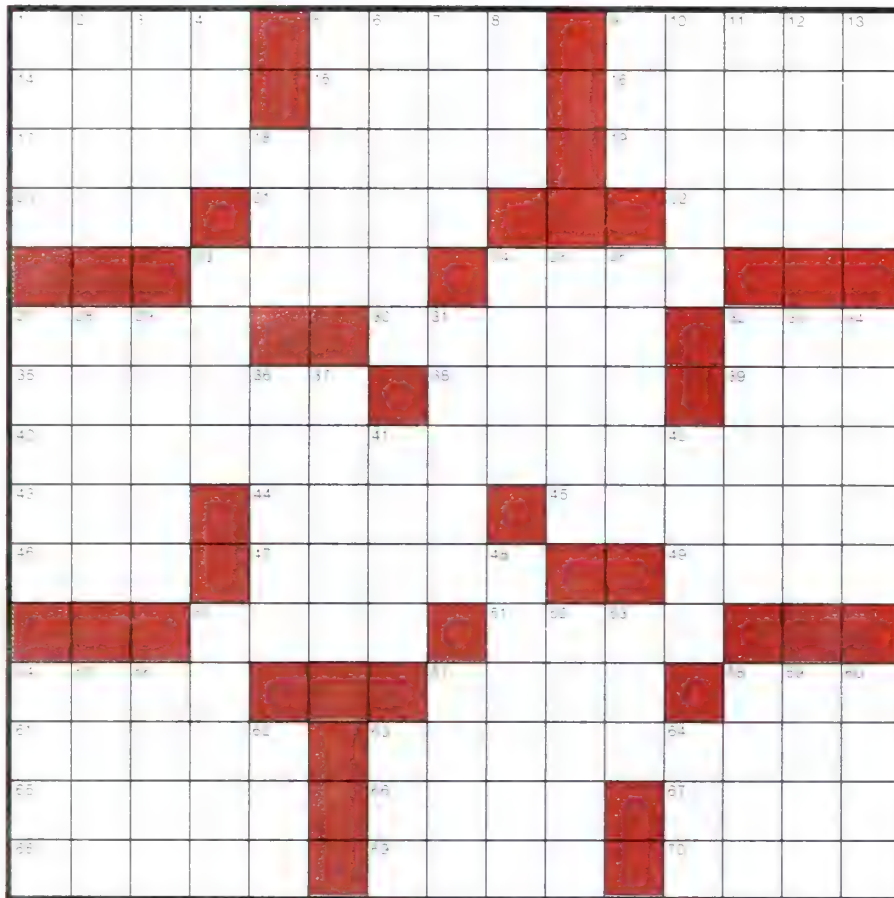
INTRODUCING THE IBM THINKPAD® 390 SERIES

The new ThinkPad 390's price isn't necessarily its most attractive feature. Its slim design also hides a powerful Intel® processor (up to 266 MHz), a huge active matrix screen, built-in CD-ROM and floppy drives, stereo speakers and a high-speed internal modem. For less than \$1,800*, this neat little package puts e-business within reach of small business professionals everywhere. And that's a big deal. See the full line of ThinkPads at www.ibm.com/thinkpad or call 1 800 426 7255, ext. 5028.

Intel processors (up to 266 MHz) / Up to 4.3GB hard drive / 12.1" or 14.1" TFT screen / CD-ROM / From \$1,799*

Mixing Business with Pleasure by Lincoln

Puzzle #6



ACROSS

1. Internet "garage sale" site
5. Get an __ effort
9. Flip-chart stand
14. Iced-tea alternative
15. AZT, for one
16. Give a speech
17. #1 airline in the intra-California market
19. Gore and Perot once debated it
20. Federal budget bureau: Abbr.
21. Nonstandard contraction
22. Frequent baseball-game sponsor
23. Harmonious relationship, for short
24. Special-interest groups: Abbr.

27. British Airways' former name
30. Medal of Freedom, for one
32. Public prosecutors: Abbr.
35. Cosmair fragrance
38. Oscar __ Renta
39. Computer use in business: Abbr.
40. Short-term corporate debt
43. With 34 Down, spending lavishly, perhaps
44. Piccadilly Circus statue
45. Avoid a court action
46. "Smoking" alternative
47. Dental-insurance plan name
49. Fifth word of "America"
50. Nickname for Dallas
51. Big name in shoes
54. Expensive

57. Inflation advisor for President Carter
58. Nashville Network owner
61. Like some congestion
63. Reed and Weill's employer
65. Out of the way
66. Keynes' field: Abbr.
67. Onetime Connecticut governor Grasso
68. Collar stiffeners
69. Moynihan's birthplace: Abbr.
70. Electronic-organizer name

DOWN

1. Standard Oil of New Jersey, formerly
2. Period of rapid economic growth

3. "Rub-__-dub, three men a tub"
4. Chinese statesman Sun __
5. First name of Polaroid's founder
6. Like L'Oreal
7. Remove from office
8. Troop group: Abbr.
9. Very long time
10. Some OPEC ministers
11. Place for valuables
12. Diminutive suffix
13. Corporate-jet develop
18. Minimal money, so to
23. Con game
24. Top-rated
25. Unveils a new product with "out"
26. Vineyard unit
27. Hormel product
28. Maine college town
29. Mideast capital
31. Type of poet
32. High degree of knowledge
33. Designer Simpson
34. See 43 Across
36. "__ say more?"
37. Second-quality, as merchandise: Abbr.
41. __ fusion (physicist's q
42. Business-envelope abbreviation
48. Explosive mixture
50. Bush's treasury secreta
52. Tsingtao Brewery's ho
53. Projecting corner: Ab
54. Genetic engineer's ma
55. Toward the dawn
56. Pacific Rim locale
57. "__ derriere" (see pag
58. Inflation-based salary increase: Abbr.
59. Merrill Lynch symbol
60. Unasked-for e-mail
62. Inspirational speaker Brown
63. Board member, usual
64. One's good name, for

For answers to this puzzle:

Turn to page 124 in this week's issue of Business Week or visit *Mixing Business with Pleasure by Lincoln* on www.businessweek.com (URL: www.businessweek.com/adsection/puzzlesbylincoln/index.htm)

Puzzle created by: Stanley Newman.


LINCOLN

1-800-446-8888

Kick derrière.



powerful luxury SUV on the continent. It pampers seven passengers in three rows of leather-trimmed seats. While it tows up to 7,000 lbs. Over a mountain. With an attitude. Call 1.800.446.8888, visit www.lincolnvehicles.com or see an authorized Lincoln Navigator dealer.

Lincoln Navigator. What a luxury [] should be.

EDITED BY AMY DUNKIN

CLICK HERE FOR INDEX FUTURES

Every morning, coffee cup in hand, Todd Brown parks himself in front of his computer 15 minutes before the futures markets open at 8:30 central standard time. He logs into his account at zap Futures and prepares for action. His game is the Standard & Poor's 500-stock index futures contract, and his goal is to make \$500 before 10 a.m. That's when he starts his real job selling software from his Houston home.

Like Brown, growing numbers of investors are using their PCs to get into the listed derivative markets. They're drawn by better trading sites, reams of free financial data, and plummeting commissions. Until recently, most of the online action focused on stock and stock-index options. In December, for example, Charles

Schwab executed 10,000 online option

transactions, nearly 50% more than a year earlier. But online futures trading is now taking off, thanks in part to the advent of smaller contracts aimed at retail investors.

PINT-SIZED. The most popular is the "E-mini," introduced by the Chicago Mercantile Exchange in 1997 as a pint-sized version of the S&P 500 contract. The E-mini is valued at one-fifth of the larger S&P contract (currently worth \$318,500) and requires a margin payment of as little as \$3,400 (vs. over \$16,000 for its big brother). The E-mini trades on Globex2, the Merc's 24-hour electronic network.

That means an order placed from a Web site can get executed in seconds. "We can connect orders directly with the Merc's trade-matching engine," explains Thomas Peterffy, CEO of Timber Hill Group, which offers online trades in the E-mini for \$9.90 per contract.

The Chicago Board of Trade is making a similar pitch to small investors with the Dow Jones contract. Introduced in October, 1997, just months after the E-mini, the Dow Jones contract is worth 10 times the value of the average (\$96,199 as of Jan. 11) and requires a downpayment

of \$4,800. But unlike the Merc, the CBOT has yet

to allow online customers direct access to its electronic network—it doesn't want to steal business from the trading floor. You can place orders for the Dow Jones and other CBOT products online, but there's no real advantage over phoning them in to a broker.

The E-mini and Dow Jones contracts are simple directional plays, meaning they follow the market when it goes up or down. That differs from index options, which reflect market volatility and don't always mirror the underlying indexes. Transaction fees on futures are also typically less than alternatives such as Standard & Poor's Depositary Receipts,

index funds that are traded on the American Stock Exchange. You'd have to buy 514 SPDRs to get the same investment exposure as one E-mini contract worth \$64,000. But you'd have to put up half of the price of the SPDRs in cash and \$117.50 in annual management fees.

Not surprisingly, online brokers are scrambling for E-mini action. William Kaiser, president of ZAP Futures, says about 25% of his S&P 500 customers have switched to trading the E-mini on Globex2, and "volumes are doubling

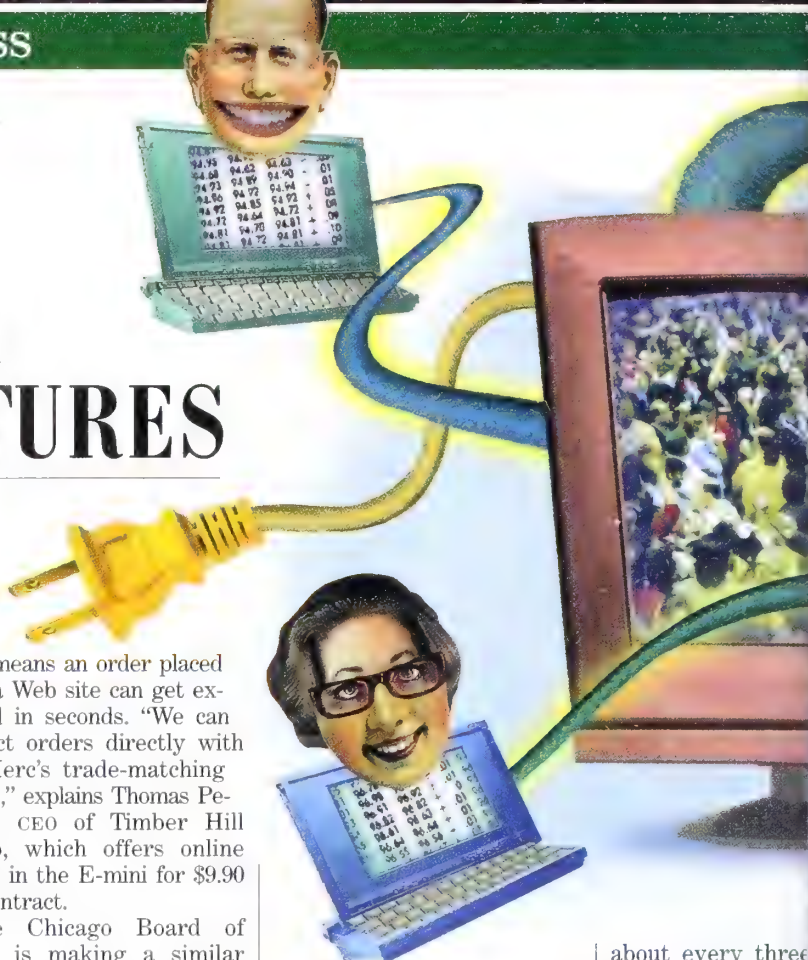
about every three months. More than 30 firms in the line futures trading growth has them improve their Web sites.

Before you set up a account, bear in mind that futures trading, particularly without a broker, is a way to play the market you can find. Futures contracts are leveraged margin requirements as 5%. So they are volatile than individual stocks. They also have downside risk through funds, or options. You can lose buying a put and call option

HOW TO GET SOME PR

Within six months, the Dow Jones industrials will plunge 15%. Long-term interest rates will again slide below 5%. And, by the way, fears of winter damage to the Florida orange crop

are overblown. You can't get lower things to be true was willing to bet them—pretend. So on Jan. 5, the Auditrack



Online Trading Options

BROKER

JACK CARL FUTURES

800 621-3424
www.jackcarl.com

LIND-WALDOCK

800 445-2000
www.lindonline.com

TIMBER HILL

312 986-2360
www.interactivebrokers.com

ZAP FUTURES

800 441-1616
www.zapfutures.com

COST PER CONTRACT

\$25

\$15
and up

\$9.90

\$20-\$29

COMMENT

Lots of free content, including historical charts

Good program for analyzing trading strategies

Two-second execution, fastest in the industry

Full of bells and whistles, such as live audio from the Merc floor

accept investors with a net worth of less than \$50,000.

With each tick on the E-mini contract representing \$12.50, split-second execution time is a major

selling point for online brokers (table). ZAP Futures executes E-mini trades in two to three seconds, says Kaiser. It has three commission rates: \$20 per contract for accounts over \$100,000, \$23 for accounts over \$10,000, and \$29 for accounts under \$10,000. ZAP has some interesting features. For \$250—less if you trade often—a month, the ZAP Total Trading Platform offers real-time quotes, commodity price charts, and news. You can also listen to a commentator in the S&P 500 pit at the Chicago Merc. Kaiser says hearing the bid and ask

prices live is invaluable for determining the market's direction. But you'll need to be familiar with the language in the pits: "Offered at a half...half bid...one and a half paper...two even straight now."

Timber Hill boasts two-second execution times, but offers just three contracts: the E-mini; the Swiss-franc denominated Swiss Market Index; and the Dow STOXX 50, a large-cap European index. The firm recently began marketing its online service to retail customers and is beefing up its Web site. But don't go to Timber Hill expecting hand-holding. "We don't want people looking to us for advice online," says Vice-President David Downey.

Jack Carl Futures is an online up-and-comer. After some problems last year, its web site is vastly improved. The firm charges \$25 for a day trade and \$30 for an overnight E-mini order. If you want to talk to a broker

about the trade, you pay \$43.

The site offers a lot of free content, including news headlines, historical price charts, market commentary, and economic reports. As with most sites, the really useful stuff costs extra. You'll have to fork over \$130 per month to get Signal Online, which provides the content for many broker Web sites, including sophisticated charts and portfolio management programs.

While Lind-Waldock, the largest discount futures broker, offers online trading, it would rather have clients maintain a relationship with a broker. That helps weed out inexperienced traders. Still, Lind knows the future is online and intends to launch an improved Web site in February.

Futures markets aren't for everyone. Fortunes can be made and lost, sometimes in seconds. But if you understand the risks, opportunity is now as close as your keyboard. *Andrew Osterland*

your investment. s, you're obligated contract. If the ves against you, o ante up more intain your posi- g your downside

of the high risks futures, the Com- res Trading Com- quires brokers to her futures trad- able activity for a stors must sign a knowing they eir entire invest- ore. Since bro- mately responsi- des, most won't

gram offered through d of Trade (www.cb- ot. simulation lets you learn ou put up real money. t because it gave me n the Dow Jones and nd contracts. Non-CBOT n hogs and frozen or- g per trade. All my et orders, which go rrent price and remain

open until I buy or sell the same contract. I sold two Dow Jones March contracts, worth 10 times the index, at 95.44, which means the market expects the Dow will trade at 9544 in March. When the contract matures on the third Friday of March, I will profit if the Dow has fallen below 9544. I also bought a June bond contract worth \$126,040, the price of a \$100,000 30-year Treasury bond at 8%.

I expect hog prices to rebound quickly,

so I bought two February contracts (80,000 pounds of hogs) at 36.57¢ per pound. I sold a March orange juice contract (15,000 pounds) at 98.75¢ per pound.

As of Jan 11, my short on the Dow was down \$2,920; my long position in bonds was down \$1,875. My short on orange juice was off \$540; the hogs contract was up \$2,100. So far I'm out \$3,235. But I still have time for my trades to prove their merit. *Andrew Osterland*

COMMENTARY

By Mike McNamee

WHY THE ROTH NEEDS A REVAMP

If Congress were a business, it would be thinking hard about a relaunch of its latest financial product, the Roth IRA. This brand of individual retirement account, inaugurated a year ago, got glowing reviews and drew heavy showroom traffic. But sales have been mixed, hampered by stiff up-front taxes and confusing rules. The result: The hefty revenues Congress hoped to reap from the Roth's first year probably won't materialize.

Roth because Congress set higher income limits and didn't bar workers with employer-backed pensions from opening accounts. In fact, lawmakers thought Roth IRAs would be so appealing they gave owners of old-style IRAs the right to switch. If your income is below \$100,000, you can cash out your traditional IRA and put the money in a Roth account without penalty. But you will have to pay income tax on the earnings and any deductible contributions in your old IRA. To soften that blow and encourage people to pay taxes that otherwise wouldn't be due for decades, Congress allowed anyone who converted in

volume, in mid-December. Even that surge, "we're didn't see the versions we expected," says Christine S. Fahlund, a financial planner at the T. Rowe Price fund family.

RAISE INCOME LIMITS. Congress blame. Financial planners say a one-year window for converting and

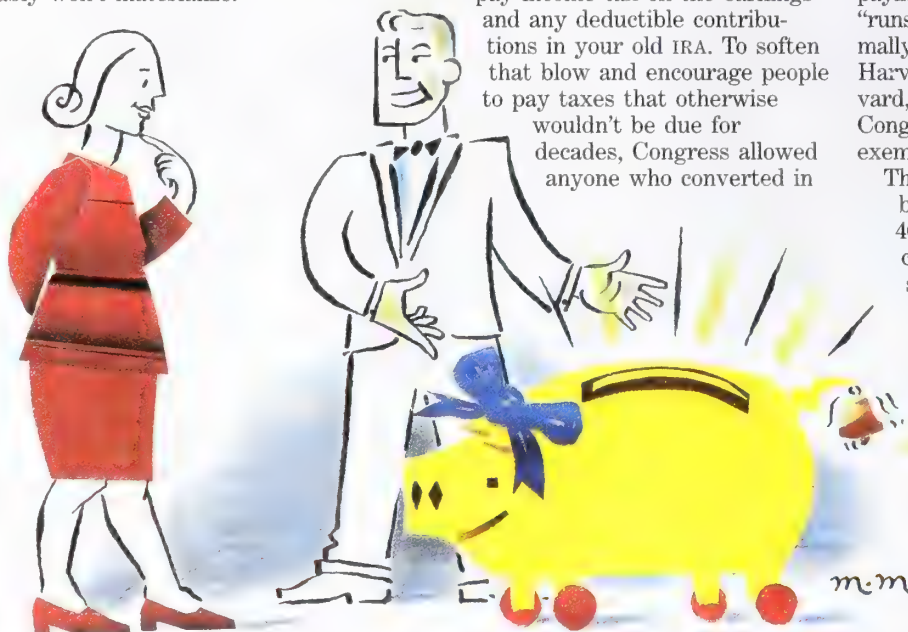
spreading out the taxes didn't give enough time to educate clients on benefits of switching. The notion of paying rather than postponing taxes "runs counter to everything we normally tell clients," says Dee Lee, a Harvard Financial Educators instructor in Harvard, Mass. Many IRA clients fear Congress will renege on its vow to exempt Roth IRAs from taxes for

That's not likely, because the boom constituency for Roth 401(k)s, and other retirement accounts will form a powerful savings political bloc. But Congress should extend 1998's special tax treatment for converters who act between

now and the end of 2001. It should eliminate confusion by creating one set of income limits for conversions and new accounts. And it should raise new-account income ceilings—now \$150,000 for couples, \$95,000 for singles—and let savers put \$5,000 a year into a Roth IRA. These changes are essential

Congress wants interest in Roth IRAs to build. The demand is clearly there: Merrill Lynch's IRA volume has already doubled from 1997 to 1998, with Roth IRAs making up 15% of the total. "It stimulated interest in all IRAs, without cannibalizing traditional accounts," says Jim McCarthy, Merrill's manager of new product development. Firms expect another surge of interest before Jan. 15, the deadline for making a contribution to a 1998 account. Congress needs to improve the Roth IRA so that these surges can turn into a steady flow of funds and help Americans' woeful savings.

McNamee covers tax issues in Washington.



The stampede into Roth hasn't materialized. Financial planners blame confusing rules and a tight one-year window for educating clients on the new IRA's benefits

Part of the 1997 Taxpayer Relief Act, the Roth put a new twist on the old IRA formula. Traditional IRAs let eligible savers deduct up to \$2,000 a year in contributions from their taxable income and defer taxes on the account until the funds are withdrawn after age 59½. Roth IRA deposits are not deductible, but earnings are exempt from taxes.

Many more taxpayers qualify for a

1998 to spread the tax bill over four years. That option has now expired.

While a majority of IRA holders could profit by switching to a Roth, mutual funds and brokerage firms say fewer than 10% of their IRA clients converted last year. True, a rush to convert before the yearend boosted the numbers some: Vanguard reported 3,000 calls about conversion a day, or 150% over the predicted

Limited time offer!

Trade in your old videoconferencing system,
eliminate your costly service contract.
And, receive a state of the art system,
ViewStation MP, at a substantial discount.

Call today for details and a
participating reseller nearest you.

Offer expires 3/31/99.
Some restrictions apply.

Quality Face Time.

(Picture your customer here.)

Polycom® ViewStation™ videoconferencing... Powerful Communication.

Need to close that deal before your competition does? Like to make a remote branch office feel less remote? Or perhaps you'd simply like to up those status meetings with your favorite customers to every week. Of course, nothing is as effective as face time. Providing you have the time to travel. But when you can't leave the office, there's ViewStation by Polycom. Videoconferencing with ViewStation takes you across the world and back, all before lunch.

With ViewStation, the world's #1 selling* group videoconferencing system, your point is always easily delivered, loud and clear. Priced at less than \$6000 and packed with more performance and features than other systems selling at prices significantly higher, ViewStation is your hands-down choice to make what you say mean more. Discover for yourself just how far ViewStation can take you without you ever having to leave the office.

Call today to arrange for your personal,
free ViewStation demonstration.

1-800-262-1212 or www.polycom.com

Easy, hassle-free four-way videoconferencing is now a reality!

Ask about ViewStation™ MP, the newest addition to
our ViewStation family of products



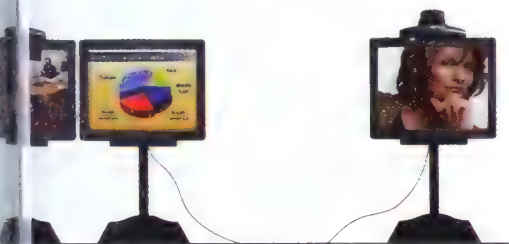
POLYCOM

Advanced Communications Solutions

Clarity
POLYCOM

H.323
READY

ViewStation™
You use it for is your business.



*Based on units shipped for 12 month period ending 6/30/95. Source: "7/98" 98. TeleSpan. Polycom® and the Polycom logo design are registered trademarks and ViewStation™ is a trademark of Polycom, Inc.
©1998 Polycom, Inc. All rights reserved.

FUND WATCH

■ With a total return of over 84% last year, Robert Dowlett's Millennium Growth Fund finished 1998 just 0.0083 of a percentage point



DOWLETT

behind the top diversified U.S. stock fund, Transamerica Premier Aggressive Growth (BW—July 27). Sen. or Writer Robert

Barker chats with the 31-year-old money manager.

Q: How did you do it?

A: It's a large-cap, growth-oriented, technology-flavored strategy.

We've been sticking with Dell Computer, Lucent, Cisco.

Q: Those aren't exactly unknown stocks. What's different for you?

A: Because of the \$10 million size of the fund, it allows us to be more flexible. We executed a trade in Amazon.com that [alone] added a few percentage points in return. We were able to get in and get out a couple of days later to ride the trend. These trades are just not possible in a \$10 billion fund if you want a meaningful effect on the fund's return.

Q: Your worst mistake?

A: Not having a far bigger position in some of the leading Internet companies—Yahoo! and Amazon and Broadcast.com.

Q: Why 34% in cash?

A: There's room for fear [in the market]. That would allow us some opportunities.

Q: If prices fall, what would you buy?

A: I'm looking at Pixar or At Home. Or companies like Network Solutions or InfoSpace.com.

For an expanded version, go to www.businessweek.com/today.htm or AOL, keyword: BW Daily.

A 'PAUSE' BUTTON FOR TUBE JUNKIES

You arrive home too late for the start of a whodunit on TV, so you spend the rest of the hour trying to catch up with the plot. Or maybe you were watching at the beginning, but just as a key scene was about to confirm your suspicions about the culprit, the phone rang and pulled you away.

Tube junkies no longer have to contend with these irritants, thanks to new technology that caused a splash at January's Consumer Electronics Show in Las Vegas. In March, Replay Networks and TiVo each plan to introduce set-top boxes that will let you rewind or pause a TV program even as it is being broadcast. Satellite subscribers who buy EchoStar's new \$500 Model 7100 receiver will also be able to pause a telecast for up to 30 minutes. So when that ill-timed phone call interrupts the action, you'll hit a button and later resume watching from where you left off.

PERSONAL CHANNELS. These devices have disk drives like the ones inside your PC. Incoming TV signals are compressed, recorded onto the hard drive, then decompressed in a split second. In fact, you can replay the start of a show at the same time the device is recording its conclusion.

Replay and TiVo also aim to personalize TV viewing so you can find the programs you want to see and watch them at your leisure. For example, Replay lets you set up customized channels. You could create an *X-Files* channel by having Replay's search software scan a database to

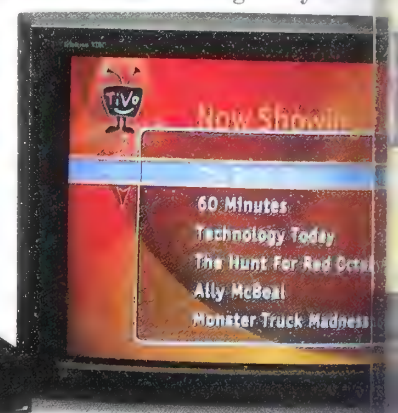
find and automatically record each episode of the series. Similarly, if you can't get enough of Tom Cruise, the system can find all the movies or talk shows featuring the actor, and then record them. The device updates channel guide information by phoning a server in the middle of the night. To avoid running out of storage space, you can tell the device to replace older shows as new ones are aired.

TiVo functions in much the same fashion, with some differences. Just as Amazon.com makes recommendations to its Web site customers based



YOUR LIFE ELECTRONICS

The aren't Replay with 10 hours of storage set you back \$699 with 14 and 28 hours age will cost \$999 and respectively. But it doesn't charge a monthly fee for access to its cloud. TiVo gives you 100



REMOTE CONTROL

With these new set-top devices, you can stop a telecast, take that ill-timed phone call, and resume watching where you left off



on their previous orders, TiVo guesses at what you might like to watch, based on your viewing habits. So if you like *ER*, TiVo might recommend *Marcus Welby, M.D.* reruns. On the TiVo remote control are thumbs-up and thumbs-down buttons so you can tell the service of your preferences. TiVo says it will not reveal your name in sharing such data with marketers.

The technology has limits. Without a splitter, you can't record one channel while watching another, like you can using a VCR. Viewers who like to record for posterity will still want to tape

storage and is expected to go for around \$500—models with greater storage capacity will be more. But you'll have to pay about \$10 a month for data. You'll eventually have to buy Philips Electronics' TiVo set-top service and DirectTV's set-top receiver built in. Now, should you still watch *Friends*, *Frasier*, or *baseball game*? *Edwan C.*

Zip! For a faster tax refund click send



IRS *e-file* is today's way to file your income tax—and get your refund back in half the usual time. Even faster with Direct Deposit!

If you prepare your tax return on your PC or Mac, take the next step and *file* it electronically too.

Click! IRS *e-file* is fast, simple, accurate and secure. And you can e-file 24 hours a day, 7 days a week.

Do you owe more tax? You can still e-file your return now, get fast proof of acceptance from the IRS, but then wait until April 15th to make the payment. One option allows you to authorize a withdrawal from your bank account on the date you choose, up to April 15th. Another option allows you to pay with your credit card.

Any questions? Check the IRS Web site at www.irs.ustreas.gov or your tax preparation software.

IRS *e-file*. It's the fastest way to get a tax refund.

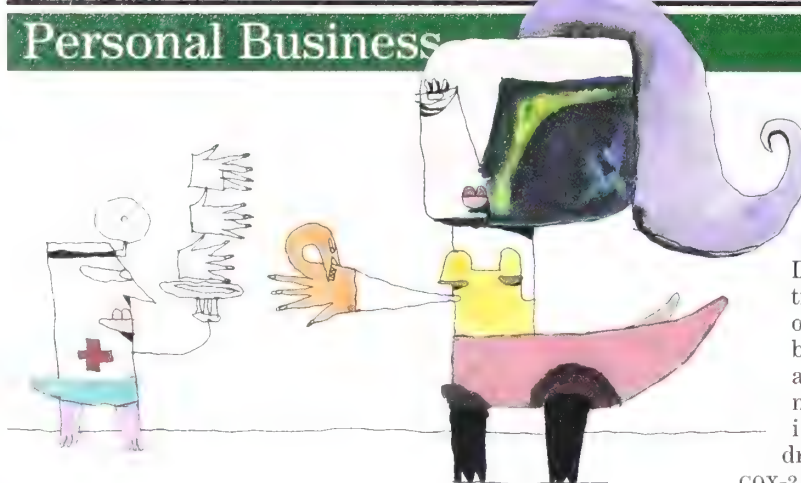


CLICK. ZIP.
FAST ROUND TRIP.

The Internal Revenue Service



Working to get service first



THERE'S HOPE FOR THOSE ACHING JOINTS

Since Carol Williamson was diagnosed with rheumatoid arthritis in 1987, she has tried almost every drug available. But "nothing really helped that much,"

says the 70-year-old retired secretary from Sugarland, Tex. The pain in her fingers and wrists got so bad that she had to give up driving and even had trouble opening a soda can. "I had just about given up hope," Williamson says. Then, two months ago, she started taking a new anti-inflammatory drug, Enbrel. Today, she has little pain, can use her hands freely, and plans to resume driving.

Enbrel represents one of a number of important advances in the treatment of arthritis, a condition that affects 43 million Americans—one in six. "We haven't had a new drug for arthritis in over a decade, and this year we have several," says Dr. David Fox, chief of the rheumatology unit at the Univer-

sity of Michigan Medical School in Ann Arbor.

The new medicines are the result of long-running studies into the two most common forms of the disease: osteoarthritis and rheumatoid arthritis. Osteoarthritis occurs when the cartilage in a joint deteriorates, causing the bones that meet there to rub against each other. Rheumatoid arthritis results from an improper immune response that chronically inflames and eventually destroys joints. Symptoms for both include joint pain and stiffness, sometimes with unsightly, painful nodules and swelling.

YOUR LIFE HEALTH

The latest drug to hit the market is Celebrex, approved Dec. 31 by the Food & Drug Administration for both forms of arthritis. Celebrex is the first of a class of nonsteroidal anti-inflammatory drugs known as COX-2 inhibitors. They

act by blocking enzymes involved in joint inflammation while sparing COX-1 enzymes that protect the gastrointestinal lining. COX-2 inhibitors are less likely to cause stomach ulcers and bleeding than commonly used drugs such as aspirin and ibuprofen (like Advil or Motrin), which suppress both enzymes. Another COX-2 inhibitor, Vioxx from Merck, is expected to get FDA approval soon. But some insurers may not cover these drugs because of their expense. Celebrex costs \$2.40 wholesale, vs. 2¢ for generic ibuprofen.

SPONGE ACTION. Enbrel, from Immunex and Wyeth-Ayerst, got the go-ahead in November for rheumatoid arthritis. It works by mimicking a receptor for tumor necrosis factor, or TNF, a protein involved in inflammation. "Enbrel essentially sops up TNF like a sponge," says Dr.

Arthritis Resource

ARTHRITIS FOUNDATION

800 283-7800
www.arthritis.org

NATIONAL INSTITUTE OF ARTHRITIS, MUSCULOSKELETAL & SKIN DISEASES

301 495-4488
www.nih.gov/nid

Frank Arnett, director of rheumatology unit at the University of Texas School in Houston.

More TNF antagonists are coming, such as Cimzia, which is prescribed to treat Crohn's disease for rheumatoid arthritis. Hoechst Marion Roussel's Arava, an immunosuppressant that got a green light in September, targets fast-growing white blood cells involved in inflammation. Arava destroys these cells and helps develop new cells and prevent organ failure.

Augmenting physical therapy with new pharmaceuticals are new approaches. Doctors now recommend that patients do special exercises to retain function in the joints and prevent further damage. They also help avoid drugs that can cause weight and aerobic

Trade-offs in the Pain Game

DRUG/MANUFACTURER	ACTION	SIDE EFFECTS
CELEBREX (Searle, Pfizer)	Suppresses enzymes that promote joint inflammation	Diarrhea, abdominal pain
ENBREL (Immunex, Wyeth-Ayerst)	Mimics receptor for protein in inflamed joints	Injection-site reactions
ARAVA (Hoechst Marion Roussel)	Targets fast-growing white blood cells that trigger inflammation	Diarrhea, rash, hair loss
CORTICOSTEROIDS (Various)	Hormones that suppress inflammation—and the immune system	Weight gain, diabetes, hypertension
NONSTEROIDAL ANTI-INFLAMMATORIES (Various)	Inhibit enzymes involved in joint inflammation	Stomach ulcers, intestinal bleeding
METHATREXATE (Various)	Cancer drug that suppresses all fast-growing cells	Infections, liver failure



It's possible to
give the
performance
of a lifetime
every single day?

When running a department, there are no dress rehearsals. Which is why you need a server that delivers an unforgettable performance daily. Designed with our Highly Parallel Systems Architecture and dual Pentium II

processors, the new Compaq ProLiant 3000 has all the power you need. And the unmatched availability to handle today's demanding financial applications. To see how it outperforms the competition and performs under budget, contact compaq.com/servers/performance or 1-800-AT-COMPAQ.



COMPAQ Better answers.™

FOR AD RATES AND INFORMATION
PHONE: (312) 464-0500
FAX: (312) 464-0512 OR WRITE:

BusinessWeek

MARKETPLACE

BUSINESS WEEK MARKETPLACE
500 NORTH MICHIGAN AVENUE, SUITE 1000
CHICAGO, IL 60611

Corporate Gifts

Logo Tattoos!

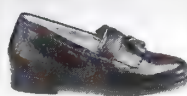


1000 Temporary Tattoos with your Logo, Just \$189.00!!
plus \$10.00 S&H (CA add 7.25% sales tax)
Customized! Full Color! 2" x 2"

Calico
3000 Alamo Drive, Ste 201 • Vacaville, CA 95687
Tel: 707/448-7072 • Fax: 707/448-8273

Men's Footwear

MEN: BE TALLER!!



Tired of being short? Try our quality footwear. HIDDEN height-increasing feature INSIDE shoe. NO OVERSIZED HEELS! Will make you 2-3" TALLER, depending on style. OVER 100 STYLES AVAILABLE. Extremely comfortable. sizes 5-12 Widths B-EEE. In business over 55 years. MONEY-BACK GUARANTEE. Call or write for FREE color catalog.

ELEVATORS®
RICHLIE SHOE COMPANY DEPT BW91
P.O. BOX 3566, FREDERICK, MD 21705

1-800-290-TALL

Education / Instruction

GET THE EDGE!

COLUMBIA BUSINESS SCHOOL

Columbia Executive Education
Learning that powers performance.™

UPCOMING COURSES

Finance and Accounting for the Nonfinancial Executive
(Mar 21 - 26) (Jun 13 - 18)

The Transition to General Management
(Apr 18 - 30) (Oct 31 - Nov 12)

Emerging Leader Development Program
(Mar 14 - 19) (Dec 12 - 17)

For more information on these and other programs:
Call 212-854-3395 ext. 64

Visit our web site at: www.columbia.edu/cu/business/execed

MAKE A BIG HIT
Logo & Personalized Golf Balls

Titleist
TOP-FLITE
Wilson
PRECEPT
Pinnacle
MAXFLI

To Order Call:
I.D. GOLF BALLS
1-888-ID BALLS
(1-888-432-2557)

CD-ROM Equipment

Easy to use! No computer needed.

CD COPIER
\$1695

CDpress by Princeton Disc
800-426-0247

Home Furnishings

BUY DIRECT!
from North Carolina, furniture capital of the world. Shop and save. In home delivery. Over 400 manufacturers to choose from.

HOMEWAY FURNITURE COMPANY
P.O. Box 1548, Mt. Airy, NC 27030
(800) 334-9094 (336) 786-6151

Men's Footwear

MEN'S WIDE SHOES
EEE-EEEEEE, SIZES 5-13
FREE catalog • High quality • 160 styles



HITCHCOCK SHOES, INC.
Dept. 55A Hingham, MA 02043
1-800-992-WIDE www.wideshoes.com

Asian Consulting Services

ASIA'S CRISIS IS AMERICA'S BUSINESS OPPORTUNITY

Expert consultation on Asian strategies, including RE/Equity Investment, Partnerships/Joint Ventures, OEM, Outsourcing, & Market Distribution & Development. U.S. 408-779-9085
Fax 408-779-2374; Seoul, Korea 82-20647-0705 • Fax 82-2-646-3771
e-mail: johnlee@jek.co.kr

Conference Calls

COMPLETE, HIGH QUALITY FULLY AUTOMATED CONFERENCE CALL SYSTEM

NO equipment to buy, phone lines to be installed, or set up charges. Save big \$ over other companies "Lowest Rates" Call Remotelink toll-free for 24 hr info.

1-877-CONF-SYS
(877-266-3797)

Education / Instruction

MONTICELLO UNIVERSITY

The Practitioner's MBA & JD Programs. Accredited Doctor, Master, Bachelor.
www.monticello.edu
Fax 913-661-9414
800-405-7935

MBA BY DISTANCE LEARNING

Major British university offers accredited MBA, no Bachelor's or GMAT needed. Chosen by Economist Intelligence Unit as one of world's best MBA programs

HERIOT-WATT UNIVERSITY (800) MBA-0707
North American Distributor • Ask for ext. 20
6921 Stockton St., Suite 2, El Cerrito, CA 94530
For immediate FaxBack literature: from your fax machine's phone, call (510) 486-8900.

The Leader in Distance Learning for 20 Years

• Associate • Bachelor • Master • Doctor
Business (Mgmt, HRM, Health Care)
Management of Technology,
Psychology, Law

Southern California University for Professional Studies
1840 E 17th St BW, Santa Ana, CA 92705
800-477-2254 www.scups.edu

Business Oppor

Security Document Shredding



- Growth industry, proven track record
- Buy direct from manufacturer - no franchise or distributor requirements
- Minimum cash requirement

Call SHRED
1-800-380-3800

MAKE MONEY BUSINESS FRANCHISE CONSULTING

Arrange Business Loans, Leases from \$1,000 to \$100,000. Brokerage, Work directly with Lenders. Unlimited earning potential. Residual income.

FREE 45 minute video seminar and information packet

CALL 1-800-380-3800
The Loan Consultant

Education / Instruction

A Winning Strategy to Take You to the Top

Structure your study to fit your schedule, location and budget while earning your MBA.

You profit from the experience and knowledge offered by the world-class faculty of University's Management Center in providing distance learning.

- No GMAT required
- Local support center
- Work experience & qualifications
- Member of the Association to Advance Collegiate Schools of Business
- Accredited with the Association to Advance Collegiate Schools of Business
- Offered under Royal Charter

For more information and a call us at 800-874-5844 or rdusa@roels.com. Visit the website at: www.ica.ac.uk

Franchise

ARE YOU SITTING ON A FRANCHISE?

Franchise

CALL 1-800-380-3800

Talk to us first. Because only more businesses than you.

The leader in franchise and consulting. **Franchise**

Financial Services

\$30,000 to \$100,000

Start or expand your business with a business plan. Guaranteed by the www.business-plan.com

1-888-745-6751

AD RATES AND INFORMATION
PHONE: (312) 464-0500
(312) 464-0512 OR WRITE:

ss Services

L NOW
30% to 50%

BUSINESS AND ENTER CHECKS

ring is easy!
e phone and CALL
NER CHECKS
9.4087 ext. 29
00-774-1118
nerchecks.com

you tickets in front of you, as well
can fax us a copy of the check &
all to confirm your order.

ction Guaranteed

OPORATE

nation
tes and Offshore
ned and operated
creations.com

672-9110

EMARK

s Financing

FOR INVOICES

ice Your Receivable

assles • No Financials
tomize financing
our company
Financial, Inc.
747-4234

al Services

to \$95,000

approval.com

to 12.00%

2 hr Svce. • EZ approval
Borrowing Made Easier
ing balance deposits.

6752 ext. 1005

ief Products

THE FINEST IN SSAGE CHAIRS

Personal

ne.

etails Today!

age Chairs Direct

emporary Styles

00-353-9917

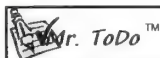
Business Software

MAIL ORDERS • WEB ORDERS PHONE ORDERS

Order entry, credit card processing, shipping, A/R, A/R,
contact management with integrated internet e-mail options,
inventory management, reporting, list management and
mailing... everything you need for order taking by phone, mail
even the World Wide Web in one simple easy-to-use and
affordable Windows program from Dynacom

Call 1-800-858-3666 or visit www.dynacom.com/bwk

MailOrderManager



NEW!

Mr ToDo provides fast, flexible task
management for one user... or many

- Simple to learn and use
- Prints useful task reports
- Only \$29.95 to purchase
- Download a **FREE** 45-Day Evaluation
from our web site — www.easyfct.com

To Order: 800-242-4775 ext 15622

Venture Capital

Corporate Investor Seeking To Invest

in emerging companies in new
media, consumer products
and branded services.

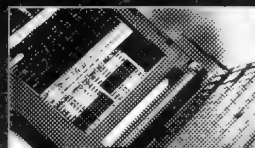
Please fax summary description
to **203-328-2394** or e-mail
bussplan@ix.netcom.com

Investment Services

Trade Online w/Signal

the real-time money-making machine!

- Stocks
- Futures
- Options
- Streaming
Internet
Delivery
- Free Nasdaq
Level II
- Forex
- News
- Charting
- Historical
Data
- Pager/cell
phone alerts



Sign-up online today at:

www.dbc.com/bw

or call 888.200.1016 x140L

Computer Equipment

HEWLETT-PACKARD

Buy-Sell-Trade

Laserjet Colorpro Draft/Master
DeskJet Draftpro DesignJet
Electrostatic Plotters Ruggedwriter
HP 9000 Workstations & Vectras
Demo & Refurbished Equipment
Ted Dasher & Associates
PO Box 131269 Birmingham, AL 35213-6269
Phone 205/263-4747 Fax 205/263-1108
800/638-4833 • E-mail sales@dasher.com

Publishing Services

Publish Your Book

75-year tradition of quality. Subsidy
book publisher offers publishing
services for books of all types. For
free *Author's Guide* write Dorrance-
BW, 643 Smithfield, Pittsburgh, PA
or call 1-800-695-9599

Aviation / Fractional Ownership



FLEXJET

LOSE SOME wait.

Our Flexjet Fractional Ownership
program puts a Learjet or Challenger
business jet at your disposal for as little
as \$175,000*. Which puts control of
your schedule back where it belongs:
with you.

To learn more, call us at **1-800-FLEXJET**
(353-9538). We're ready when you are.

BOMBARDIER AEROSPACE

* Estimated annual after-tax cost of ownership (500 occupied
hours over five years) in a Learjet 31A. Conditions apply.





Sprint
businessflexSM



Our New Plan Adapts To Your Needs. So Charge All

Introducing Sprint Business Flex, a new business communications plan that adapts to you

Now create your own small business communications plan with Sprint Business Flex. It's flexible. So, choose from domestic and international long distance and toll-free service, switched data, dedicated access, paging and local toll calling. It's all on one comprehensive bill with low, flat, competitive rates. What's more, you're free to adjust your

plan as you see fit. Just consult with us on an as-needed basis and we'll help you find the right mix. Plus, you'll get a monthly bonus that can grow as you grow and is automatically credited to your account every month. Which means Sprint Business Flex can help your success really pay off.

Call toll-free

1-888-SPRINT-BIZ www.sprint.com/biz



©1998 Sprint Communications Company L.P.
Minimum spending of \$50 required to receive monthly bonus.
Monthly bonus based on volume of Sprint spending. Some restrictions apply. Call for details.

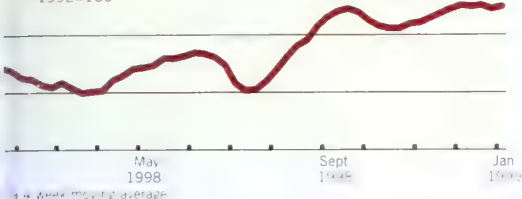
We help your business do more business.

CONSTRUCTION INDEX

from last week: 0.1%
from last year: 4.7%

PRODUCTION INDEX

rate of 142.5
1992=100



The index rose in the week ended Jan. 2. The unaveraged index was also from 141.8 in the previous week. The monthly index for December %, to 142.4, from 142.3 in November. After seasonal adjustment, oil, coal, lumber, and rail-freight traffic posted healthy gains at this was a holiday week. Only electric power output was down. Holiday plant closings, there was no output of autos and trucks this week.

INDICATORS

	LATEST WEEK	WEEK AGO	YEARLY % CHG
IES (1/8) S&P 500	1275.09	1229.23	37.4
BOND YIELD, Aaa (1/8)	6.34%	6.23%	-3.2
PLY, M2 (12/28) billions	\$4,433.9	\$4,424.1r	9.1
IMS, UNEMPLOYMENT (1/1) thous	350	372r	6.4
APPLICATIONS, PURCHASE (1/8)	254.8	249.0	-4.2
APPLICATIONS, REFINANCE (1/8)	1,494.2	1,468.5	-18.9

Standard & Poor's, Moody's, Federal Reserve, Labor Dept., Mortgage (Index: March 16, 1990=100)

RATES

	LATEST WEEK	WEEK AGO	YEAR AGO
NDS (1/12)	4.78%	4.54%	5.42%
L PAPER (1/12) 3-month	4.79	4.80	5.37
ES OF DEPOSIT (1/13) 3-month	4.91	4.93	5.53
GAGE (1/8) 30-year	6.89	6.99	7.08
MORTGAGE (1/8) one-year	5.73	5.75	5.68
	7.75	7.75	8.50

Federal Reserve, HSH Associates, Bloomberg Financial Markets

PRODUCTION INDICATORS

	LATEST WEEK	WEEK AGO	YEARLY % CHG
STEEL (1/9) thous. of net tons	1,843	1,787#	-17.2
AUTOS (1/9) units	110,410	0#	6.9
TRUCKS (1/9) units	138,121	0#	22.3
ELECTRIC POWER (1/9) millions of kilowatt-hrs.	70,366	64,171#	13.8
CRUDE-OIL REFINING (1/9) thous. of bbl./day	15,171	15,350#	2.0
COAL (1/2) thous. of net tons	18,852#	15,104	-6.0
LUMBER (1/2) millions of ft.	263.5#	245.8	-6.8
RAIL FREIGHT (1/2) billions of ton-miles	21.5#	19.2	-6.5

Sources: American Iron & Steel Institute, Ward's Automotive Reports, Edison Electric Institute, American Petroleum Institute, Energy Dept., WWPAl, SFPAl, Association of American Railroads

PRICES

	LATEST WEEK	WEEK AGO	YEARLY % CHG
GOLD (1/13) \$/troy oz.	285.450	287.650	1.0
STEEL SCRAP (1/12) #1 heavy, \$/ton	84.00	84.00	-41.5
COPPER (1/8) ¢/lb.	68.2	69.6	-12.8
ALUMINUM (1/8) ¢/lb	59.0	60.0	-18.4
COTTON (1/8) strict low middling 1-1/16 in., ¢/lb	57.57	58.47	-9.9
OIL (1/12) \$/bbl	12.72	11.85	-21.7
CRB FOODSTUFFS (1/12) 1967=100	207.98	201.63	-8.1
CRB RAW INDUSTRIALS (1/12) 1967=100	263.91	263.47	-10.7

Sources: London Wednesday final setting, Chicago market, Metals Week, Minneapolis market, NYMEX, Commodity Research Bureau

FOREIGN EXCHANGE

	LATEST WEEK	WEEK AGO	YEAR AGO
BRAZILIAN REAL (1/13)	1.3100	1.2089	1.1184
BRITISH POUND (1/13)	1.65	1.65	1.63
CANADIAN DOLLAR (1/13)	1.53	1.51	1.43
EUROPEAN EURO (1/13)	1.1672	1.1602	NA
JAPANESE YEN (1/13)	113.57	113.15	131.19
KOREAN WON (1/13)	1174.0	1158.5	1671.0
MEXICAN PESO (1/13)	10.510	9.770	8.178
TRADE-WEIGHTED DOLLAR INDEX (1/13)	105.4	104.6	110.9

Sources: Major New York banks. Currencies expressed in units per U.S. dollar, except for British pound in dollars. Trade-weighted dollar via J.P. Morgan

the production indicators are seasonally adjusted in computing the BW index (chart); other components (estimated and not listed) include machinery and defense Western Wood Products Assn. 2=Southern Forest Products Assn. 3=Free market value NA=Not available r=revised NM=Not meaningful

WEEK AHEAD

MARKET INDEX

Jan. 19, 1 p.m. EST ► The National Association of Home Builders surveys its information on buyer traffic for new homes, current sales, and new orders. The results are compiled in the Housing Market Index. For January, the index probably slipped to 75% from December. The record-high reading was helped by unseasonably warm weather.

EVENTS

Jan. 20, 8:30 a.m. EST ► Housing remains at an annual rate of 1.1 million in December, says the latest of economists surveyed by

Standard & Poor's MMS, a division of The McGraw-Hill Companies. That's suggested by both the high level of the Housing Market Index and a rise in construction employment for December.

GREENSPAN TESTIMONY

Wednesday, Jan. 20 ► Federal Reserve Chairman Alan Greenspan will testify on the state of the economy before the House of Representatives' Ways & Means Committee. The appearance is tentatively scheduled for 10 a.m.

BEIGE BOOK

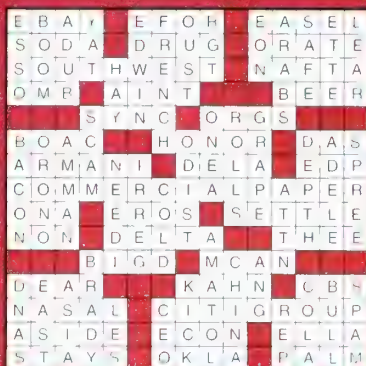
Wednesday, Jan. 20, 2 p.m. EST ► The Fed's Beige Book will describe regional economic

activity as reported by the district banks. Fed watchers will be interested in any anecdotal evidence of price increases and whether last year's credit squeeze continued into 1999. The book is being prepared in advance of the policy meeting scheduled for Feb. 2 and 3.

INTERNATIONAL TRADE

Thursday, Jan. 21, 8:30 a.m. EST ► The S&P MMS forecast calls for the trade deficit in goods and services to have widened to \$15 billion in November, from \$14.2 billion in October. Exports, which had increased strongly for two months in a row, likely fell in November. Imports, up 2.2% in October, were probably little changed.

Mixing Business with Pleasure by Lincoln



Answers from puzzle #6
in Business Week.

LINCOLN
www.lincolnvehicles.com

Index to Companies

This index gives the starting page for a story or feature with a significant reference to a company. Most subsidiaries are indexed under their own names. Companies listed only in tables are not included.

A

ABB Asea Brown Boveri 86
Access Multimedia Technology 98
Aeromega 8
AES 38
Aetna (AET) 12, 28, 46
Airbus Industrie 6
AirTouch Communications (ATI) 56
Allegro 8
Alpha Therapeutic 92
Amazon.com (AMZN) 12, 92, 116
American Express (AXP) 12, 41
American Insurance Group 42
America Online (AOL) 49, 78, 92, 94
Amoco (BPA) 28, 84
Apple Computer (AAPL) 6, 49, 78
Archer Daniels Midland (ADM) 81
Armstrong & Lehr 42
Ascend Communications (ASND) 48
Ascent Logic 42
AT&T (T) 48, 56, 94
@Home (ATHM) 94, 116
Atlanta Hawks 74

B

Bakrie & Brothers 65
BankAmerica (BAC) 49
Bankers Trust (BT) 28, 45, 84
Bank Julius Baer 39
Bank One (ONE) 92
Banner Service 42
Baxter International (BAX) 92
Bayer 92
Bay Networks 48
BBC 64
BCP Securities 38
Beanstalk Group 74
Bear Stearns (BSC) 36
Bell Atlantic (BEL) 49, 56
BellSouth (BLS) 49
Bertelsmann 76
Best Foods (BFO) 48
Blackstone Group 45
BMW 68
Boeing (BA) 28
Boston Celtics (BOS) 49
British Petroleum (BPA) 28, 84
British Sky Broadcasting (NWS) 86
British Telecommunication (BTY) 56, 94
Broadcast.com (BCST) 116
Brown Brothers Hamman 88
BT Alex. Brown (BT) 92
Burger King 8

C

Campbell Soup (CPB) 48
Caterpillar (CAT) 39
Centocor (CNTO) 118
Cerus (CERS) 92
Chicago Bulls 74
Cincinnati Insurance (CINF) 42
Cisco Systems (CSCO) 48, 116
Citigroup (C) 28
CMP Media 107
CNA Insurance Group 42
Coca-Cola (KO) 74
Compaq Computer (CPQ) 78
Control Data 98
Coors (ACCOB) 8
Crown Publishers 76
Cushman & Wakefield 12

D

Daewoo 54
Daihatsu 68
DaimlerChrysler (DCX) 6, 28, 68
DecisionQuest 42
Dell Computer (DELL) 64, 116
Detroit Pistons 74
Deutsche Bank 28, 94
Dixons 64
Dresner Kleinwort Benson 56

E

EarthLink 8
eBay (EBAY) 49
EchoStar (DISH) 116
Eli Lilly (LLY) 46, 49
Executive Search Information Services 106
Exxon (XON) 28

F

Federated Department Stores (FD) 106
Fiat (FIA) 68
First Union (FTU) 36, 92
Foot Locker (Z) 106
Ford (F) 68, 86
Forstmann Little 107
Fortis Advisers 107
Furman Selz 68

G

Gartner Group 6
Gateway (GTW) 64, 78
GE Capital (GE) 54
General Electric (GE) 12
General Motors (GM) 68
Gillette (G) 36, 38
Glaxo Wellcome (GLX) 8
Goldman Sachs 48, 84, 86, 88, 92
Gucci Group 49

H

Harvard Financial Educators 114
Heidrick & Struggles 106
Henley Center 64
Herbert Mines Associates 106
Herschel Shostack Associates 94
Hewlett-Packard (HWP) 24, 78
Hino 68
Hoechst 118
Home Shopping Network 49
Honda (HMC) 68
Hunt-Scanlon Advisers 106
Hyundai 54, 68

I

iAtlas 105
IBM (IBM) 78, 94
Immunex (IMNX) 118
Imperial Chemical Industries (ICI) 86
InfoSpace.com (INSP) 116
ING Barings 36, 38
Intokmi 105
Intel (INTC) 39, 49, 64, 78
International Paper (IP) 39
Intuit (INTU) 78

J

Jack Carl Futures 112
Josephthal Lyon & Ross 41

K

Kaiser Permanente 46
Kellogg (K) 48
Kemper Funds 36
Kenzer 106
Kia Motors 54, 68
Kodak (EK) 54

Korea First Bank 54

K-Tel International (KTEL) 12

L

Lamborghini 68
Lanston (Aubrey G.) 36
Lantus Systems 8
LaSalle Street Securities 107
Laura Ashley 86
Lazard Freres 41, 45
Lehman Brothers (LEH) 88, 92, 107
LG 54
Lind-Wallock 112
Littler Mendelson 106
Livent (LVNTF) 49
Lloyd's of London 42
Lloyds Bank 86
Lockheed Martin (LMT) 28
Long-Term Capital Management 51, 84, 126
Lotte Department Store 54
Lucent Technologies (LU) 48, 116
LVMH-Moët Hennessy Louis Vuitton 49
Lycos (LCOS) 94

M

MAC 107
Macroeconomic Advisors 39
Macy's (FD) 106
Manchester United 86
McGraw-Hill (MHP) 123
MCI WorldCom (WCOM) 28, 94
Mellon Bank (MEL) 39
Merrill Lynch (MER) 38, 46, 84, 88, 92, 107, 114
Microsoft (MSFT) 6, 8, 12, 24, 39, 78
Millennium Growth Fund 116
Mitsubishi Motors 68
Mobil (MOB) 28
Monsanto (MTC) 46
Morgan (J.P.) (JPM) 36, 45, 68, 84, 126
Morgan Stanley Dean Witter (MWD) 32, 41, 84
Motorola (MOT) 56

N

NanoTechnology Development 98
NationsBank (NB) 49
NBA 74
NBC (GE) 49, 74
NEC 105
Netscape Communications (NSCP) 78
Network Solutions (NSOL) 116
New Balance 74
Newbridge Capital 54
New York Knicks 74
Nextrend 68
Nike (NKE) 74, 77
Nissan 68
Nortel Networks 48
NTT DoCoMo 86

O

Oakwood Corporate Housing 42

P

Pacific Bell 49
Pacific Investment Management 36
Paramount Pictures 49
PepsiCo (PEP) 8, 48
Pfizer (PFE) 6
Philips Electronics (PHG) 116
Pixar (PIXR) 116
Prada 49
Procter & Gamble (PG) 39
Prudential Health 28
Prudential Securities 48
Pyramid Research 56

Q

Quaker Oats (OAT) 74
Qwest Communications (QWST) 94

R

Random House
Rare Air 76
Reader's Digest
Renault 68
Replay Networks
RJR Nabisco (RJR)
Robodyne Cyben
Rolls-Royce 68
Rover Group 68
Russell Reynolds

S

Salomon Smith
Samsung 54
Sara Lee (SLE)
Schering-Plough
Schwab (Charles)
Scroder 68
Seagram (VO) 4
Securities Data
Seitchik Corwin
Seoul Securities
SG Cowen Security
Softbank 107
Sony (SNE) 24
Source Data Systems
Spiegel (SPGLA)
Sprint (FON) 8, 9
Standard & Poor's 123
Standard Chartered
Star Television
Starbucks (SBUX)
Sun Microsystems
Suzuki 68

T

TAG Heuer 8
Tele-Communications (TCOM) 94
3Com (COMS)
Timber Hill Group
Time Warner (TV)
TiVo 116
Toshiba 24
Toyota (TOYOT)
Transamerica Preferred Growth Fund
Travelers Properties (C) 42
T Rowe Price 1

U

Unilever (UL) 8
United HealthCare
UPS 74
USA Networks (U)
U.S. West (USW)

V

Vancouver Grizzlies
Vanguard Group
Venator Group (V)
Vodafone Group
Volkswagen 68
Volvo (VOLVY)

W

Wal-Mart Stores
Walt Disney (DIS)
Warburg Dillon
Warner Bros. (T)
Wellpoint Health
Wells Fargo (WF)
Wyeth-Ayerst 1

X

Xerox (XRX) 12

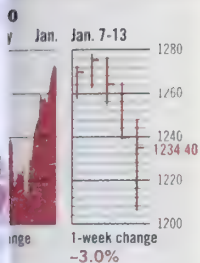
Y

Yahoo! (YHOO) 4

Z

ZAP Futures 1
Ziff-Davis 107

Investment Figures of the Week



MARKET
Spectacular first week—Dow Jones industrials hit record of 9643.3 on Jan. 7, then tumbled. The selling came over about upcoming profit-taking. Brazil's financial crisis started to unravel, currency sank. Reacting to news from Latin America the Dow plunged 260 points, or 2.8%, in the first of trading on Jan. 13. Bargain hunters came to the market made up the loss to close at 168.18, in 1999.

U.S. MARKETS	Latest	% change Week	Year
Dow Jones Industrials	9349.6	-2.0	20.1
NASDAQ Combined Composite	2316.8	-0.2	49.6
S&P MidCap 400	382.9	-3.1	19.7
S&P SmallCap 600	176.4	-1.2	1.4
S&P SuperComposite 1500	260.5	-2.9	26.9

SECTORS	Latest	% change Week	Year
Bloomberg Information Age	498.5	0.0	68.5
S&P Financials	131.4	-3.1	15.2
S&P Utilities	253.9	-2.5	10.6
PSE Technology	482.2	1.5	68.1

FOREIGN MARKETS	Latest	% change Week	Year
London (FT-SE 100)	5850.1	-4.9	14.6
Frankfurt (DAX)	4931.8	-9.4	17.7
Tokyo (NIKKEI 225)	13,403.6	-0.5	-11.4
Hong Kong (Hang Seng)	10,273.8	0.4	11.4
Toronto (TSE 300)	6632.1	-2.5	4.4
Mexico City (IPC)	3300.4	-11.9	-29.0

FUNDAMENTALS	Latest	Week ago	Year ago
S&P 500 Dividend Yield	1.27 %	1.27 %	1.60 %
S&P 500 P/E Ratio (Last 12 mos.)	32.3	32.6	23.8
S&P 500 P/E Ratio (Next 12 mos.)*	24.1	24.2	18.7
First Call Earnings Surprise*	15.13 %	9.99 %	3.12 %

TECHNICAL INDICATORS	Latest	Week ago	Reading
S&P 500 200-day average	1111.3	1106.5	Positive
Stocks above 200-day average	40.0 %	41.0 %	Positive
Options: Put/call ratio	0.39	0.45	Negative
Insiders: Vickers Sell/buy ratio	1.33	1.25	Positive

Data: Bloomberg Financial Markets; *First Call Corp.

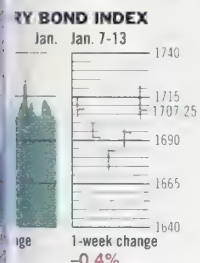
BEST-PERFORMING GROUPS	Last month %	Last 12 months %
Broadcasting	23.6	Communications Equip. 120.4
Personal Loans	23.0	Specialty Appr. Retailers 94.0
Savings & Loans	21.1	Computer Systems 88.4
Cosmetics	21.0	Genl. Merchandise Chains 80.8
Health-Care Services	19.0	Computer Software 75.6

WORST-PERFORMING GROUPS	Last month %	Last 12 months %
Toys	-14.6	Oil & Gas Drilling -47.2
Hospital Management	-12.0	Oil-Well Equip. & Svcs. -30.7
Engineering & Constr.	-8.1	Oil Exploration & Prod. -26.9
International Oil	-5.1	Hospital Management -26.7
Specialty Printing	-3.4	Toys -25.7

BLOOMBERG MONEY FLOW ANALYSIS

Rebound ahead? Stocks with most significant buying on price weakness	Price	1-month change
Exxon	70 3/4	-3 11/16
GTE	63 1/16	-1 1/8
Telebras-ADR	62 3/8	-11 3/4
Mobil	85 3/4	-3 3/8
Telefonos de Mexico-ADR	43 7/8	-3
Chevron	82 1/16	-3 5/8
Decline ahead? Stocks with most significant selling on price strength	Price	1-month change
Cisco Systems	98 1/8	17 3/4
Microsoft	142 3/16	14 1/4
MCI WorldCom	72 1/2	10 9/16
Dell Computer	80 7/16	15 11/16
Intel	135 9/16	24
CMGI	130 3/4	97 3/4

ST RATES



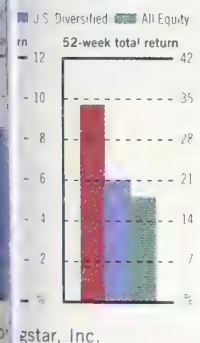
KEY RATES	Latest	Week ago	Year ago
MONEY MARKET FUNDS	4.71	4.75	5.23
90-DAY TREASURY BILLS	4.44	4.47	5.17
6-MONTH BANK CDS	4.38	4.39	5.18
1-YEAR TREASURY BILLS	4.46	4.53	5.17
10-YEAR TREASURY NOTES	4.71	4.73	5.41
30-YEAR TREASURY BONDS	5.13	5.17	5.71
LONG-TERM AA INDUSTRIALS	6.10	6.13	6.35
LONG-TERM BBB INDUSTRIALS	6.89	6.97	6.70
LONG-TERM AA TELEPHONES	6.33	6.43	6.68

BLOOMBERG MUNI YIELD EQUIVALENTS

Taxable equivalent yields on AAA-rated, tax-exempt municipal bonds, assuming a 31% federal tax rate.

	10-yr. bond Latest week	Last week	30-yr. bond Latest week	Last week
GENERAL OBLIGATIONS	4.17%	4.16%	4.89%	4.88%
PERCENT OF TREASURIES	88.59	88.37	95.28	94.54
TAXABLE EQUIVALENT	6.04	6.03	7.09	7.07
INSURED REVENUE BONDS	4.32	4.29	5.16	5.12
PERCENT OF TREASURIES	91.78	91.14	100.54	99.19
TAXABLE EQUIVALENT	6.26	6.22	7.48	7.42

FUNDS



EQUITY FUNDS

Leaders	Four-week total return	%	Laggards	Four-week total return	%
Amerindo Technology D	66.3		ProFunds UltraShort OTC Inv.	-26.4	
Internet	60.0		Potomac OTC/Short	-14.4	
Apex Mid Cap Growth	56.4		Montgomery Latin Amer. R	-13.1	
Munder NetNet A	41.6		Prudent Bear	-11.9	
TCW/DW Mid-Cap Equity D	35.4		ProFunds UltraBear Serv.	-11.9	
Leaders	52-week total return	%	Laggards	52-week total return	%
Internet	317.7		Lexington Troika Russia	-80.3	
ProFunds UltraOTC Inv.	226.3		American Heritage	-63.3	
Amerindo Technology D	182.9		Potomac OTC/Short	-57.0	
Dreyfus Technology Growth	133.6		Montgomery Latin Amer. R	-54.0	
Potomac OTC Plus	125.9		Offitbank Latin Amer. Sel.	-48.1	

EQUITY FUND CATEGORIES

Leaders	Four-week total return	%	Laggards	Four-week total return	%
Technology	18.7		Latin America	-8.8	
Communications	16.1		Real Estate	1.6	
Small-cap Growth	13.0		Japan	2.3	
Mid-cap Growth	12.9		International Hybrid	2.9	
Large-cap Growth	9.3		Domestic Hybrid	3.9	
Leaders	52-week total return	%	Laggards	52-week total return	%
Technology	69.5		Latin America	-38.6	
Communications	57.6		Diversified Emerging Mkts.	-16.1	
Large-cap Growth	42.2		Real Estate	-13.9	
Mid-cap Growth	27.5		Natural Resources	-13.2	
Large-cap Blend	27.3		Small-cap Value	-2.1	

Market close Wednesday, Jan. 13, 1999, unless otherwise indicated. Industry & P 500 companies only. Fundamentals, technical indicators, Bloomberg money flow analysis, and mutual fund returns are as of Jan. 12. For a more detailed explanation, write to us or E-mail figures@businessweek.com. NA=Not available **Vanguard Index 500 Fund

IS THE STOCK MARKET TOO HIGH?

Where are the profits? That is the No. 1 question on Wall Street these days. After three years of stupendous double-digit increases, profit growth has slowed. The worry is that the only thing keeping the market levitating is the Federal Reserve. Doubters fear that all the money the Fed is pouring into the financial system to calm a financial crisis that has now spread to Brazil is pumping up stocks.

But there is another explanation for the market's robust performance. U.S. corporations are getting a bigger share of all the profits made in the industrialized world. Indeed, a massive shift in global profits is under way. The numbers are astounding. In 1992, American companies accounted for nearly 25% of the corporate profits made in the six major global economies, according to J.P. Morgan & Co. By the third quarter of 1998, that share was up to nearly 38%. Look at the trend this way: Seven years ago, the share of corporate profits going to U.S. companies just about equaled the share of the U.S. gross domestic product in the world economy. Today, the U.S. share of corporate profits is nearly twice its share of world GDP. And it's rising as the country enters the 93rd month of the longest peacetime business expansion in modern history.

Conclusion? U.S. corporations are doing better than most of their global rivals, especially the Japanese. In 1992, Japanese companies had a 17.5% share of world profits. By third-quarter 1998, that was down to 7%. There are many reasons for the U.S. improvement, including exceptionally good fiscal

and monetary policy, but the most important is the shift to an information economy in the U.S. Information technology generated an amazing 37% of new jobs in 1998 (page 10). Spending on high tech has boosted productivity. Does that justify each and every wild Internet stock price? Of course. Does it suggest that the overall market level may be crazy? Yes, it does.

The global profit shift is significant. The market's robustness in the U.S. and world economy has expanded sharply in recent years. Traditionally, the market functioned mostly as a vehicle for raising capital for investment. Today, the U.S. market is doing triple duty: It is financing capital investment, domestic consumption, and the trade deficit. Americans increasingly rely on capital gains to maintain their standard of living. Taxable capital gains totaled \$370 billion in 1997 and more in 1998, compared with \$127 billion in 1992. The market is also attracting foreign capital, which is necessary to finance America's huge trade deficit. Last year, for example, investors bought a record amount of U.S. equities. And with many 401(k) plans, the market also is financing retirement. The proposed Social Security reforms could expand its role.

The stock market may be racing ahead of itself, but it's as much as bears fear. The global profit shift makes lofty stock valuations, high by historic standards, more reasonable. Millions of individual investors may be right rather than the nervous pros.

LET THE DOLLAR GO ITS OWN WAY

Here's a scenario for you. If the new euro drops 15% in value against the dollar and the yen rises 10%, all three currencies could easily reach parity. Currencies often move more than that in a single year. True, the yen will have to drop two zeros, but the success of the euro is putting pressure on Japan to do that anyway. So if €=\$=¥, what then?

"Link them!" a chorus of financial gurus will say. End the currency volatility that decimated Asia, gutted the Long-Term Capital Management hedge fund, and nearly brought the world's financial house down last autumn. Stop the foreign-exchange turmoil that washed through the markets recently with the yen careening around and the Brazilian real suddenly tanking. Sounds great, yet despite the wonderful symmetry, tying the euro, the dollar, and the yen (and their respective currency blocs) together would be a major mistake. Something has got to give in market economies, and if currencies are frozen in place, then interest-rate movements would have to take up the slack. That wouldn't be a problem if the U.S., Europe, and Japan were on the same economic and financial wavelength, but they're not.

Just for starters, the U.S. is running a budget surplus of

1% gross domestic product, while Europe and Japan are running deficits of 3% to 4%. Europe and Japan, however, have trade surpluses that amount to 1% of their GDPs, while the U.S. has a mounting trade deficit that will surpass 3% of GDP this year. Then there is the issue of growth. The U.S. is running a hot information economy growing at nearly 4% annually, with unemployment falling to 4.3%. But Japan is stuck in recession, and unemployment is rising. Europe, putting in an O.K. performance in 1998, is slowing down, and unemployment remains in the double digits. True, everyone lives in a deflationary world these days. But that's neither a necessary nor a sufficient condition for linkage.

There will be talk of linking the three currencies at the upcoming World Economic Forum meeting in Davos, Switzerland, as part of the effort to improve the international financial architecture. A single currency has clearly helped to begin enforcing fiscal discipline, restructuring bankruptcies, and creating deep, liquid capital markets. But the U.S. has achieved all that already, and its biggest problem—the trade deficit—can best be solved by letting the dollar

1999 All-New Jeep Grand Cherokee

IT LOOKS LIKE
IT SWALLOWED A TIRE



There it is. Right under the cargo area. The
mat used to be out in the open is now care-
d inside a well underneath the cargo floor.
a more room for your gear and provides
s to a clean tire, should you ever need it.

That's just one of the many interior refinements
we've made to the all-new 1999 Jeep Grand Cherokee.
There's also an available all-new overhead console with
13 programmable features to help make this one of
the most user-friendly sport utility vehicles around.

To find out what else is hidden inside our newest
4x4, visit us at www.jeep.com or call 1-800-925-JEEP.
The thoughtfully designed Jeep Grand Cherokee.
You'll find all the improvements easy to swallow.

Jeep

THERE'S ONLY ONE

THE ALL-NEW JEEP GRAND CHEROKEE
THE MOST CAPABLE SPORT UTILITY EVER*

*Based on ANCI overall on- and off-road performance tests using Grand Cherokee with available Quadra-Drive™ and V8 engine.
Jeep is a registered trademark of DaimlerChrysler.

**WHEN YOU FIND YOURSELF IN A PREDICAMENT
LIKE THIS, THERE ARE CERTAIN THINGS YOU NEED.**

Will.

Ingenuity.

800.368.4326 compumark.com

Compumark's Connection

Sometimes the right answer is deceptively simple. No matter how basic or complex your technology problems, we can resolve them, just as we do for four out of five of the world's companies. We never stop asking what do you need most? **People and software for business.**



3 9042 04589912 4

Businessweek

SPECIAL REPORT ON
SMALL BUSINESS
ENTERPRISE
BEGINS OPPOSITE PAGE 44

January 1, 1999

A PUBLICATION OF THE MCGRAW-HILL COMPANIES

\$3.95

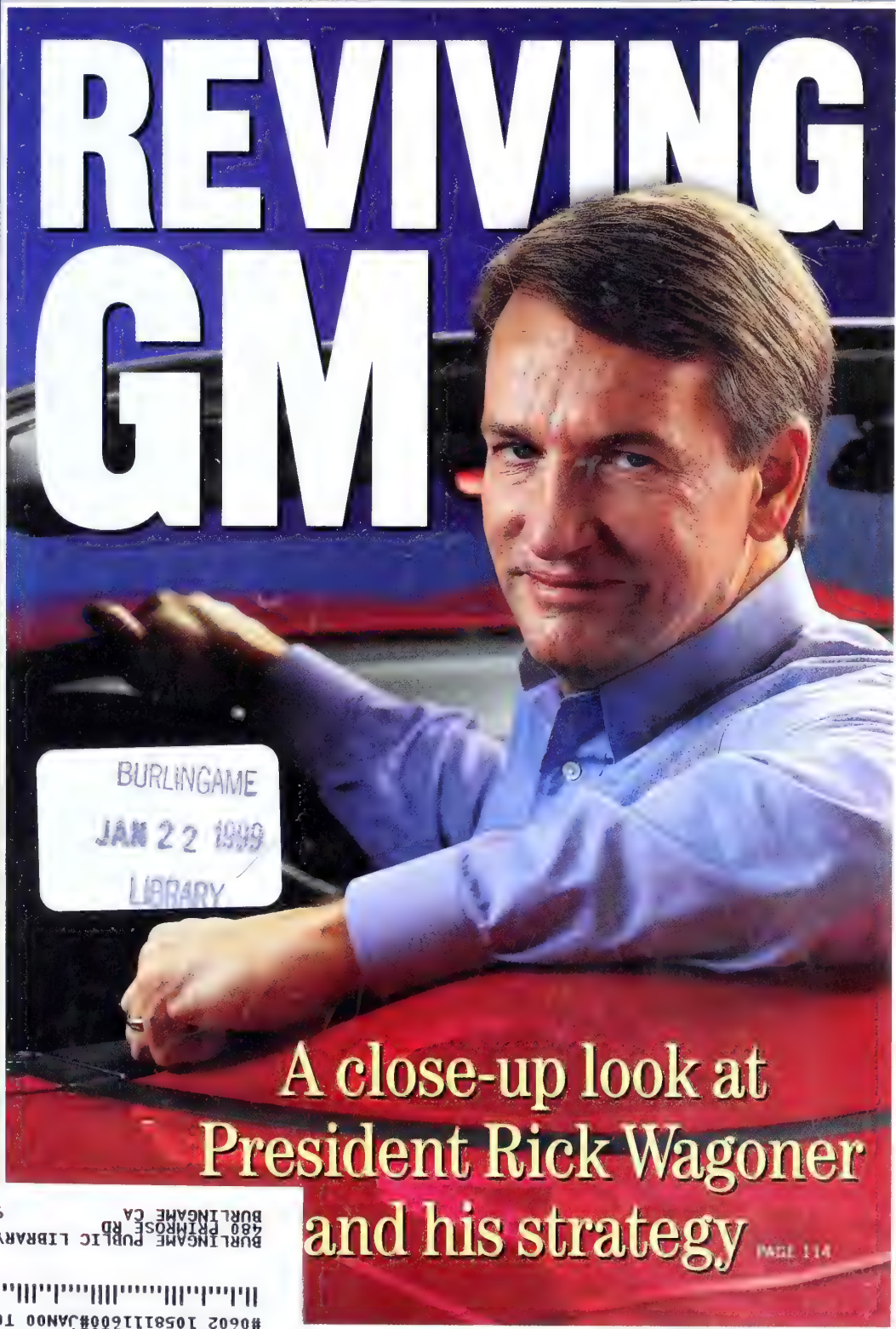
Best
Virtual
Funds
Risk-Adjusted
Rankings
Alan's Big
back
Up Fund
markets

al
urity
it play the
market?

on
phics
uzzo
ut
g



REVIVING GM



BURLINGAME
JAN 22 1999
LIBRARY

A close-up look at
President Rick Wagoner
and his strategy

PAGE 114

BURLINGAME PUBLIC LIBRARY
480 PRIMROSE RD
BURLINGAME CA 94010-4010
*****5-DIGIT 118116000 JAN00 102 0273 9910

**WHEN YOU FIND YOURSELF IN A PREDICAMENT
LIKE THIS, THERE ARE CERTAIN THINGS YOU NEED.**

Will.

Ingenuity.

800.368.4326 compuware.com

Compuware Corporation

Sometimes the right answer is deceptively simple. No matter how basic or complex your technology problems, we can resolve them, just as we do for four out of five of the world's companies. We never stop asking what do you need most? People and software for business a



3 9042 04589912 4

SPECIAL REPORT ON
SMALL BUSINESS
ENTERPRISE
BEGINNING OPPOSITE PAGE 44

Businessweek

January 1, 1999

A PUBLICATION OF THE MCGRAW-HILL COMPANIES

\$3.95

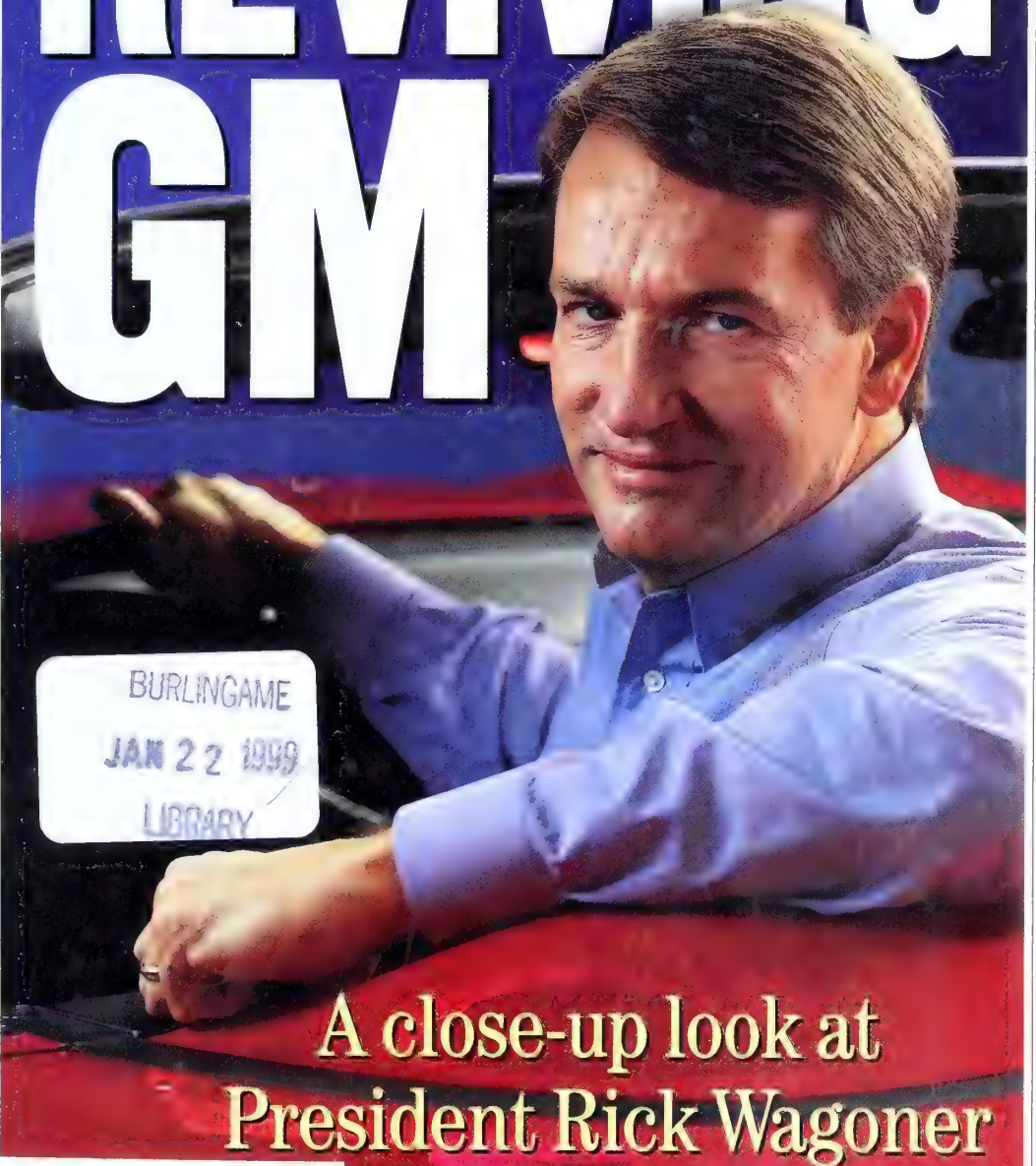
Best
Mutual
Funds
Risk-Adjusted
Rankings
Billan's Big
Back
Up Fund
Markets

Global
Security
It play the
market?

Con
Phics
uzzo
out
g



REVIVING GM



BURLINGAME
JAN 22 1999
LIBRARY

A close-up look at
President Rick Wagoner
and his strategy

PAGE 114

94010-01010
BURLINGAME PUBLIC LIBRARY
480 PRIMROSE RD
BURLINGAME CA
94010-01010
*****5-DIGIT
#0602 1058116000 JAN00 102 0273
94010

"The best way

to buy
enterprise
software

is not to buy it at all.



Peter A. McCleary
President and CEO
USi, Inc.

Is there a better way to get your favorite business software. It's the USi way. For a fixed monthly fee, you can have the leading application business today without investing in software, hardware or implementation. Let USi do it. Tell us which application you want—Human Resources, Customer Relationship Management, Financial Management, Electronic Commerce, Enterprise Content Management, or Web Site Management—and we'll implement and manage it for you

with a guaranteed 24x7x365 reliability and comprehensive system security.

The world's first internet Managed Application ProviderSM, or iMAP, USi has built a global infrastructure that can have your application up and running in weeks instead of months. Why buy software when you can buy time? Act now. Call USi at 1-800-809-3003 or e-mail us at sales@usi.net. To browse our selection of leading brand applications, visit us at www.usi.net.



Today, 50,000 people
will sign up for
cell phone service
(can your mother
be far behind?).

148 million people
might hop on
the **Internet**.

900 million
voicemail
messages will be 1
(not necessarily
returned).

ne if
read
illion
ent.

There's a communications
revolution going on.
And **one company**
is right in the center of it.

Lucent Technologies
Bell Labs Innovations

600 Mountain Avenue
Murray Hill, NJ 07974-0636
www.lucent.com
1-888-4-Lucent



We make the things that make communications work.™

COVER STORY

REVIVING GM Will the carmaker ever regain the pizzazz it got from the Corvette? Lately, under President Wagoner, things have been looking up

BusinessWeek

FEBRUARY 1, 1999

Cover Story

114 REVIVING GM

The lumbering giant has weathered six years of cutting costs and reshaping the way it builds cars—much of it spearheaded by President Rick Wagoner. Efforts seem to be paying off, as profits and the stock price have risen smartly. Yet many problems remain: declining market share, low profitability per vehicle, and poor labor relations. Critics say GM must cut the number of models it sells, reduce dealerships, and revitalize marketing

122 DELPHI IS PUSHING LABOR PEACE

The merest hint of a strike could sabotage the proposed GM spin-off's launch

News: Analysis & Commentary

30 ADVANTAGE, CLINTON

The President's Social Security proposal gets reform rolling—and puts Clinton on the defensive

32 COMMENTARY: SOCIAL SECURITY

Investing some of the system's funds would be neither cure nor calamity

34 IMPEACHMENT WITNESSES, THE SOAP

Republicans are hoping their appearance will make avid spectators of the so-far apathetic public

34 CAN BELL ATLANTIC GO LONG?

It may be the first Baby Bell to break out of local markets

36 LINUX: IT AIN'T WINDOWS, BUT...

The little jerrybuilt operating system is carving a niche among those who download it for free

38 NET MERGERS: EVERYONE'S A PLAYER

From Web fledglings to media giants, the combos just keep coming—and the craziness isn't likely to calm down soon

38 AFRAID OF THE NET FRENZY

Brokers such as Charles Schwab are limiting trades in volatile stocks

42 COMMENTARY: FAMILY LEAVE

Why the President's move to expand the law to include companies with as few as 25 workers makes sense

47 RAISING PRICES: IT CAN BE DONE

But only if companies are willing to invest in products that command premiums from customers

48 IN BUSINESS THIS WEEK

International Business

52 FRANCE

First, Franck Riboud proved wrong by turning around the Danone. Now, he's building a world-beater

54 COMMENTARY: BRAZIL

Floating the real was a good idea; now it's time for fiscal discipline

59 JAPAN

Okuda may leave big problems for the already troubled Toyota steps down as president

60 INTERNATIONAL OUTLOOK

China's leaders are terrified of economic protesters will join old-fashioned political dissidents

Economic Analysis

22 ECONOMIC VIEWPOINT

Kuttner: With the economy dealt a good hand—and plenty

26 ECONOMIC TRENDS

Capital outlays may take a hit from buybacks, how much stock will CEO pay, a seasonal boost

OMY
February:
look on
r taxes



RUNNING SGI
It's all uphill
for Silicon
Graphics' new
CEO page 62

THE BEST MUTUAL FUNDS

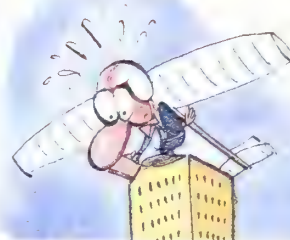


Which equity funds
offer the most bang
for your buck? Our
Scoreboard gives
you the facts page 72

THE BIG FIX
Clinton puts the
ball in play—and
the GOP on the
defensive page 30



EN GARDE!
A refocused
Danone Group
wants to conquer
the world page 52



REVOLT IN THE AIR
Road warriors shun
the pricier airlines page 68

OUTLOOK

fourth-quarter growth, it
re's plenty of momentum. But
a still urges moderation

ment

ION OUTLOOK

vows were key to the GOP's
ressional sweep. But many of
ges are about to be broken

ation Technology

GY & YOU

ital cameras and scanners skip
eman, by saving their images
o floppies—or printers

MAKES RICK RUN?

en boy Richard Belluzzo left
l seat at Hewlett-Packard for
d Silicon Graphics

poration

THE NECK

fares and bad service, airlines
ing corporate travelers—who
g back

Special Report

72 MUTUAL FUND SCOREBOARD

To see where they'll get the most for
their money, investors need to put
equity funds under a microscope. Our
Scoreboard does just that, showing you
which ones charge high fees or have too
much turnaround, and which ones
actually managed to beat the S&P

80 THE LURE OF FUND 'SUPERMARKETS'

Banks and brokers are racing to stock
thousands of funds, where investors find
convenience and lower prices

84 MAGELLAN: BACK ON COURSE

With a big bet on high tech, Robert
Stansky managed to pilot the fund past
the S&P 500

Social Issues

123 COMMENTARY: EDUCATION

Charter schools may not have all the
answers, but they definitely get an "A"
for effort

Personal Business

124 YOUR TAXES

What your accountant needs to know
File faster and save a tree
The alternative minimum tax

Features

6 UP FRONT

12 READERS REPORT

12 CORRECTIONS & CLARIFICATIONS

17 BOOKS

BUSINESS WEEK presents a wrap-up of
the best books on personal financial
management

67 DEVELOPMENTS TO WATCH

Smarter appliances, paper pulp and
protein from eggshells, cellular
deliveries that hit the spot

112 INSIDE WALL STREET

135 BUSINESS WEEK INDEX

136 INDEX TO COMPANIES

137 INVESTMENT FIGURES OF THE WEEK

138 EDITORIALS

BusinessWeek **ONLINE**

www.businessweek.com
America Online: Keyword: BW

Up Front

EDITED BY ROBERT McNATT

MILLENNIUM MESS

CAN CONGRESS STOP TIME?

HERE'S AN EASY WAY FOR THE federal government to delay the bite of the dreaded Y2K bug: Postpone the start of the year 2000 to give everyone extra time to fix things.

That may sound like an *Alice in Wonderland* idea. However, the plan has some logic to it because of how the government observes New Year's Day, 2000. Representatives John Linder (R-Ga.) and David Dreier (R-Calif.) have introduced legislation in the House to move Uncle Sam's official day off in observance of New Year's from Friday, Dec. 31, 1999, to Monday, Jan. 3, 2000. New Year's Day itself falls on a Saturday.

That change wouldn't make the computers act differently, but it will, says Linder, give technicians an extra work day in 1999 to fix

any bugs. John Koskinen, President Clinton's Y2K manager, says that a White House task force is looking into the idea of moving the holiday to Monday, and so are some private businesses.

The Social Security Ad-



Y2K BUG: Taking a holiday?

ministration, however, says that its techies will work through the holiday weekend, running a barrage of last-minute tests. For them, not even an act of Congress can hold back the hands of time. *Marcia Stepanek*

I-WAY PATROL

REBOOTING A BOOKSELLER'S IPO

LOOK FOR CHANGES AT THE barnesandnoble.com site as the electronic bookseller moves toward a second try at an initial public offering in

barnesandnoble.com

February, say sources close to the company.

Barnes & Noble shelved an earlier IPO of its online offspring last November, opting instead to sell 50% of the site to German publisher Bertelsmann for \$200 million. Now, Bertelsmann wants to fold its

online European bookseller into barnesandnoble.com. BooksOnline Europe, which is planning launches in several countries, was not part of the original joint venture.

A Barnes & Noble spokeswoman doesn't believe that the European sites will be added to the venture. But, she adds, "I don't think we ever rule out any possibilities." Since November, Barnes & Noble has shored up its ability to whisk books to online customers. It is set to acquire the country's biggest independent book distributor, Ingram Book. That, and the Bertelsmann link, could make the IPO more appealing this time around. *Richard Siklos*

TALK SHOW "That was more encouraging, you know was more balance on the seesaw. I like that!"

—President Clinton, in the State of the Union Address, reacting to bipartisan clapping in his call for equal pay

SILICON CULTURE

HIGH TECH, LOW COMEDY

MAYBE IT WAS FIN DE siècle Internet frenzy. Or perhaps it was just a way for stressed-out techies to blow off steam in San Diego. In mid-January, organizers of Showcase '99, which brings together venture capitalists and high-tech companies, let prospects make presentations in a lighthearted *Gong Show* format as well as a serious show. Pitch a good idea to the deep pockets within six minutes, and maybe you're rich. Do it badly, and the judges slap the gong, marking an embarrassing end to your presentation in front of 700 people.

How did it go? Robert Wenig, director of advanced technology at Palo Alto (Calif.)-based SAP Labs, was



SHOWCASE '99: Raising capital

the big loser. He was seconds into his spiel when a judge banged the gong. But Wenig seemed to enjoy his notoriety. He was luckier. Mark, chairman of Traveling, was in Bothell, Wash., it through the full minutes. To maintain interest, he wore a Superman costume and tossed Superman to the crowd. Says co-producer David Coury, publisher of *Courtesy.com*, an electronic newsletter: "It's a performance art." *Steven*

THE DEAL MILL

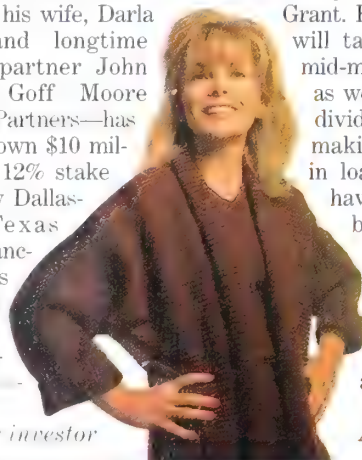
DARLA'S BANK & TRUST

RICHARD RAINWATER HAS made a fortune in real estate, health-care, and energy companies. Now, with the value of his investments swooning, the Fort Worth financier appears to be banking on, well, banking.

An investment vehicle controlled by his wife, Darla Moore, and longtime business partner John Goff—of Goff Moore Strategic Partners—has plunked down \$10 million for a 12% stake in the new Dallas-based Texas Capital Bancshares. It's the largest independent com-

mercial bank to open in the city since the banking of the late 1980s, when Texas without any of the nation's 100 largest banks. Investment also made its first foray by Rainwater's interests, which back Moore, into bank owners.

The bank has big ambitions. "We believe there's a strong need for a privately owned, -based, and -run bank," says Chairman Grant. He says the bank will target small- to mid-market companies as well as wealthy individuals. It's making \$250 million in loans in 1999, having assets of \$1 billion in 1998. The bank goes well beyond an initial offering of about 10% of its shares. *Anders*



MOORE: Lone Star investor

Q: What's the maximum percentage growth stocks have outperformed value stocks over a 12-month period since 1979?

- 3%
- 8%
- 14%
- 22%



A: 22%

From December 1979 to November 1980, growth stocks (as measured by the Russell 1000®* Growth Stock Index) outgained value stocks (as measured by the Russell 1000® Value Stock Index) by that percentage. From March 1983 to February 1984, the *tables were turned*, and value stocks outperformed growth stocks by 20%. In different periods, each type of stock can outdo the other, so you might consider owning both.

Source: Frank Russell Company, Fidelity Investments, 1998.

When you're looking for opportunities in
growth & value funds,
look to Fidelity.

GROWTH FUNDS

- Fidelity Dividend Growth Fund
- Fidelity Growth Company Fund

VALUE FUNDS

- Fidelity Value Fund
- Fidelity Equity Income Fund

If you're building a portfolio designed to try to stand the test of time, consider growth funds and value funds from Fidelity as part of the mix. Stocks in each type of fund perform differently under different market conditions. But taken together, value and growth stocks can bring a sense of balance to a portion of your investment portfolio. One more reason to turn to Fidelity to expand your opportunities.



WHERE 12 MILLION INVESTORS PUT THEIR TRUST.

CALL 1-800-FIDELITY

OR A FUND PROSPECTUS OR VISIT US AT WWW.FIDELITY.COM

For complete information on any fund available through Fidelity, including charges and expenses, call for a free prospectus or download one at fidelity.com.
E: 1-800-544-0118 for the deaf and hearing-impaired 9 a.m. – 9 p.m. ET.

* is a registered servicemark of Frank Russell of Frank Russell Company Fidelity Distributors Corporation.

Up Front

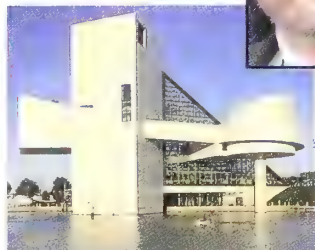
AFTERLIVES

ROCK HOUND TO THE RESCUE?

REVIVING THE TROUBLED Rock and Roll Hall of Fame & Museum in Cleveland is a daunting task, but it's a labor of love for Terry Stewart. He's a pop culture fan who was president of Marvel Entertainment Group, publisher of *Spider-Man*



RAVE ON: Ex-Marvel honcho Stewart



comics. And his own rock memorabilia includes samples of Buddy Holly's homework and 200,000 vinyl records.

Stewart, 52, will need more than stacks of wax. He is the fourth director since 1995 at

the museum, which posted a \$1.37 million loss in 1997, according to its latest annual report. Visitors that year numbered 615,000, a third fewer than the year before. One of Stewart's first tasks will be to placate his board. Director Jann Wenner, who could not be reached for comment, is the publisher of *Rolling Stone* and has been critical of the narrow range

of the museum's exhibits. Stewart, who isn't talking right now, has something to prove after his last job. He joined Marvel in 1989 and put it into theme restaurants and parks, pushing revenues to about \$1 billion from \$65 million in seven years. But he saddled it with so much debt that it entered Chapter 11 in 1996. That's a tune Stewart doesn't want to play again.

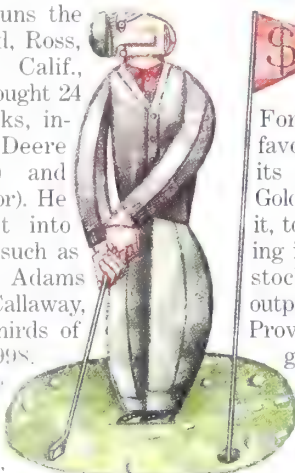
Peter Galuszka

FUND FRONT

TEE TIME FOR INVESTORS

GOLF INVESTORS WHO HAVE double-bogeyed on the slumping shares of Callaway Golf have a new option: the Value Trend Links Fund. The tiny, \$250,000-in-assets no-load fund opened on Jan. 4. Jeff Provence, who runs the fund with his dad, Ross, from El Cajon, Calif., says they have bought 24 golf-related stocks, including John Deere (think mowers) and Ford (tour sponsor). He has also bought into purer golf plays such as Ashworth and Adams Golf, as well as Callaway, which lost two-thirds of its value in 1998. Those three make up 16% of the fund's portfolio.

Oddly, though,



Links doesn't own stock in one premier golf-equipment maker, Fortune Brands, which is getting investors' attention. With brands like Jim Beam bourbon and Swingline staplers, Fortune isn't a pure golf play. But it does own the Titleist brand of golf gear. And while its stock has stagnated in the past year, value investor Robert Sanborn, who runs the \$7.8 billion Oakmark Fund, says Fortune remains a favorite because of its huge cash flow. Goldman Sachs likes it, too, recently raising its rating on the stock to a market outperformer. So will Provence go for the green, too? Maybe: He says he is considering the stock.

Robert Barker

DRAWN & QUARTERED



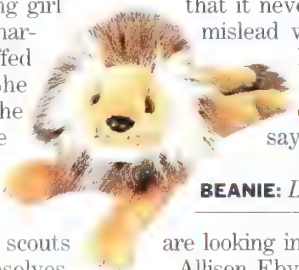
FAUX FADS

THE BEANIE BABY THAT WASN'T

GIRLS SCOUTS AND BROWNIES in southeastern Texas are scrambling to sell cookies this year. For every 150 boxes sold, the enterprising girl gets a special "Leonardo di'Cookie'o" stuffed Beanie Baby. She thinks. Actually, the maker of Beanie Babies has nothing to do with these stuffed critters, so the Texas scouts are knocking themselves out for a knockoff.

Ty Inc., maker of the trademarked Beanie Babies, has no contract with Girl Scouts of the U.S.A. or ABC Cookie Bakers, a division of Richmond (Va.)-based Interbake Foods, which supplies

cookies and prizes to nation's Girl Scouts. ABC says it is marketed by Lions Clubs, not Beanie Babies, that using the word "Beanie" in the title is not misleading. And the San Jacinto Scout Cookie Committee says it never intended to mislead with a lion. The committee's concern, says its



BEANIE: Lion, not

are looking into the matter. Allison Eby sold 100 boxes of cookies in three weeks. "I really, really want to sell these," she says. Eby, 10, who's getting an allowance, says she's getting a Beanie Baby for her birthday. She's not. So that's the way the cookie crumbles. *Kate*

THE BIG PICTURE

KIDS CAN BE COSTLY

For expatriates with children, child-care costs abroad are a big concern. Here's the wage of nannies who live out and work five days a week, 10 hours a day, in the five most expensive industrial nations.



HOURLY PAY	
AUSTRALIA	\$10.00
U.S.	\$9.00
BRITAIN	\$8.00
ITALY	\$7.00
CANADA	\$6.00
SURVEY OF 100 NANNIES	
0 2 4 6	
U.S. DOLLARS	
DATA: ECA WINDHAM, NEW YORK	

FOOTNOTES Car makes bought most often by Internet shoppers, Oct. '97 through March '98: BMW, 48.5%; least often: GM

Q: A \$1,000 investment in the U.S. stock market in 1982 would have been worth an amazing \$11,271 at the end of 1997. In which of the following countries would you have done better?

- U.K. • Sweden • Netherlands
Hong Kong • All of the above



A: All of the above.

Each of these foreign markets performed better, in dollars, than the U.S. market from Dec. 31, 1982 to Dec. 31, 1997. The big winner was the Netherlands. \$1,000 invested there in 1982 grew into a whopping \$23,346 by 1997. Recently, many international markets have been very volatile, particularly emerging markets, but long-term investors should consider shipping a portion of their assets abroad. By allocating 15% of your portfolio to international stocks from 1970–1997, you lowered your volatility (as measured by standard deviation*) without reducing your return. Foreign investments involve greater risks than U.S. investments, including increased political and economic risks, as well as exposure to currency fluctuations. From the peak in 1989 to April 1998 the Japanese market fell 50%, if you invested there, you lost money.

Source: Morgan Stanley Capital International, Fidelity Investments, 1998

When you're looking for opportunities in
international funds,
look to Fidelity.

- Fidelity Diversified International Fund
- Fidelity Overseas Fund
- Fidelity Europe Capital Appreciation Fund

When it's time to diversify your portfolio, you'll find that Fidelity offers an array of broadly diversified international funds, as well as country-specific and region-specific funds. Our investment

professionals, backed by extensive global research capabilities, seek out promising investments worldwide. One more reason to turn to Fidelity to expand your opportunities.



WHERE 12 MILLION INVESTORS PUT THEIR TRUST.

ALL 1-800-FIDELITY

FOR A FUND PROSPECTUS OR VISIT US AT WWW.FIDELITY.COM

For more information on any fund available through Fidelity, including charges and expenses, call for a free prospectus or download one at fidelity.com. Please read carefully before you invest or send money.

1-800-544-0118 for the deaf and hearing-impaired 9 a.m. – 9 p.m. ET.

*Standard deviation is a statistical measure of how much a portfolio's return has varied over an extended period of time. A higher standard deviation indicates greater historical volatility. Fidelity Investments Distributors Corporation.

We've cared for generations.





We're Pfizer.

*We've been helping
people since 1849.*

*We refuse to believe the
ills of the world
can't be cured. We search
day in, day out, year in,
year out, looking for
treatments for diabetes,
for a cure for cancer, for
new antibiotics to fight
deadly new strains of
bacteria. We've worked
with a passion for a century
and a half. And today, we're
introducing drugs that will
become household names now,
and in the next century.*

We've been in business for 150 years.

We're in business for life.



Life is our life's work.

www.pfizer.com

is "scheduled to kick in some \$200 million" in transfer payments to the less than 100 employees of Arthur Andersen for 1998. In the \$200 million was not handed over to the accounting unit but put in pending resolution of the case. Amount is part of the roughly \$750 million in back payments and damages Andersen Consulting has asked the arbitrator to award the firm.

It suggests that as Andersen Consulting continues to expand, it "will have trouble with some fundamental limitations" including access to capital. In the firm is not, and has never been, constrained. As part of the reorganization of Andersen Consulting and Arthur Andersen's financial relationship, the consulting firm recently announced a five-year revolving-credit facility that provides access to ample capital it may need to meet its business expansion plans. Finally, you suggest that arbitration has negatively impacted the

hiring and retention of employees. In terms of hiring, we recruited over 15,000 new employees to the firm last year, and we will hire a similar number this year. These new people are selected from a list of applicants more than 10 times that number. While there was a small spike in the attrition figure between 1996 and 1997, last year—the one following the arbitration filing—actually saw the numbers begin to fall. We believe final figures for 1998 will show turnover of about 15%, well below the industry average.

The arbitration proceeding will ultimately resolve Andersen Consulting's dispute with Arthur Andersen—sooner rather than later, we hope. In the meantime, to suggest that it has cast a dark cloud over the organization and its business prospects is more than a simple stretch. It's flat-out wrong.

James E. Murphy
Global Managing Director
Marketing & Communications
Andersen Consulting
New York

FINDING US ONLINE

BusinessWeek ONLINE

Full text of Business Week, the Business Week Briefing, and seven years of BW archives are available on the World Wide Web at:

www.businessweek.com

and on America Online at Keyword: BW.
Sign up for BW on AOL, call (800) 641-4848 and mention Business Week.

Maven

Looking for computer equipment? Visit Maven, our Computer Buying Guide, for continuously updated ratings and price information. Go to Keyword: Maven on America Online, or to the World Wide Web at:

www.maven.businessweek.com

REACH BUSINESS WEEK

FOR READERS REPORT

Must include an address and daytime and evening phone numbers. We reserve the right to edit for clarity and space and to use them in all print and electronic editions.

Business Week, 1221 Avenue of the Americas, New York, NY 10020

512-6458

readers@businessweek.com

Online: readersbw

FOR SERVICES

Individual subscriptions, corporate subscriptions, changes or problems, and single copies.

Call 635-1200 or (609) 426-7500

1-800-626-7623

vcustsv@businessweek.com

Based services: (212) 512-6704

AND COPYRIGHT PERMISSIONS

For reprints (minimum order of 1,000) contact 3148

For permission or reprint inquiries,

Call 512-4801

512-4938

www.businessweek.com/reprints/



"Let's not be swayed by flamboyance posing as innovation, Vera. We'll greet the future with Williams, thank you very much."

Go ahead. Let 'em show off. Let 'em buy two-page ads and run splashy TV spots. Those other guys can't match our 90-year history of reliability, innovation and solid leadership. Go ahead, let 'em. Then call Williams to solve your energy or communications problems.

Williams

Energy • Communications • Leadership

1-800-WILLIAMS • NYSE: WMB

Node?



We're willing to bet you don't think of yourself that way.

Probably you don't think of anyone at your company as a node either. They're users. People. Individuals.

Your network should recognize individuals too. And it can, right now, with Novell Directory Services® (NDS™).

With NDS software, everyone on your network has a unique profile. They can access the network online to get all the necessary business tools even when they're away from the office. With one password, the network identifies which files and applications they may use, while restricting access to secure or sensitive documents.

NDS-enabled applications monitor the system to correct problems like Y2K before they turn into downtime. NDS is designed to work on a variety of platforms like NetWare®, NT and UNIX®, because different people and departments have different needs.

You need a network of people, not nodes. You need a networking specialist. You need Novell.

www.novell.com/node or 1-800-509-1800



© 1997 Novell, Inc. All rights reserved. Novell, NetWare and Novell Directory Services are registered trademarks and NDS is a trademark of Novell, Inc. in the United States and other countries. UNIX is a registered trademark of X/Open Company, Ltd. in the United States and other countries.

Novell®

open/net/works

BY STEPHEN H. WILDSTROM

DIGITAL SNAPSHOTS IN A SNAP

Several new devices let you view and manipulate photos with less hassle

One of the big attractions of digital photography is the gratification of seeing your pictures as quickly as you take them. But looking at the tiny, low-resolution preview screen on the back of most cameras isn't very satisfying. And getting images into a computer for viewing involves painfully slow transfers and often cranky software.

The Photo Jetprinter 5770 from Lexmark International (800 539-6275 or www.lexmark.com) offers a novel solution. The Jetprinter looks like a typical inkjet printer for use with a Windows PC. Like other printers optimized for photo work, it uses five color inks (plus black) instead of the usual three.

CARD GAME. But the Jetprinter has a neat trick up its sleeve. Most digital cameras use either a CompactFlash or SmartMedia memory card to store pictures. In the Jetprinter, you take the card out of the camera and insert it in a slot. A six-button control panel and a one-line LCD display allow you to select pictures for printing and pick a size. You can even do some crude cropping.

The process is easiest if you have previewed your

shots in the camera's viewer. But if your camera doesn't have a display or you can't remember which shot is which, don't despair. The printer can generate a page, rather like a photographer's contact sheet, with thumbnail images of all your pictures.

Many camera makers offer dedicated printers that can also read memory cards directly and print out snapshot-size images. But these devices lack the versatility of



the Jetprinter, which can also be used in the conventional way to print photos that have been computer-edited with such programs as Adobe PhotoDeluxe and Microsoft Picture It! The Windows-only printer also produces

standard text and graphics.

Sony Corp.'s Mavica digital cameras offer a different solution to the image-transfer problem. Instead of using memory cards, the Mavicas store pictures on ordinary floppy disks, which can then be inserted in your computer in normal fashion. I tried a \$999 MVC-FD91, a high-end camera whose features and controls—including electronic image stabilization—will strike a still-camera user as odd but seem familiar to owners of one of Sony's popular camcorders.

The problem is that the abilities of the camera outstrip the capacity of the floppy. At its highest-quality setting, the Mavica can get just one image on a disk. To make the concept work with high-resolution cameras, Sony has to find a bigger storage medium.

SHARE WARE. The \$500 ImageDeck from Microtek International (800 654-4160 or www.microtek.com) deals with a different problem. It's a freestanding scanner that can save a photograph, image, or text for optical character recognition directly to a floppy or Zip disk, or send it to an attached printer.

Hooking a scanner up to a PC is less hassle than it once was, and for a single user, paying \$400 over the price of a regular 600-dot-per-inch scanner probably isn't worth it. But the ImageDeck is ideal for use in a small office or a department. Here's why: Unlike printers, scanners cannot readily be shared over a network. But the free-standing ImageDeck makes it easy for several people to use one scanner, then move the image on disk to their own computers for further processing or storage.

One thing all of these devices share is an emphasis on ease of use and an avoidance of the often complex job of hooking accessories up to computers. That alone makes them welcome additions.

BULLETIN BOARD

DATA STORAGE

GO FOR A ZIP...

How do you like your Zip drives? Easy? Or big? A from Iomega (888 446-0 or www.iomega.com) of choice. The \$150 Zip 100 uses the plug-and-play universal Serial Bus to connect to any Windows 98 PC, i



or the new USB-equipped Macintosh. Its translucent blue case matches the original iMac, but there's no yet on whether it will match the new iMac colors. Unlike most USB devices that get their power through the cable, the Zip drive must be plugged into an AC outlet. If big is your game, Iomega has added the \$200 Zip 250, whose disks hold 2½ times as much data as the 100—originals. It can be connected to PCs through a printer or to PCs or Macs through a SCSI connection. It can read original Zip disks, the 250-Mb disks cannot be read by Zip 100 drives.

...OR DIVE INTO DVD

If you need really big reliable storage, the DVD-ROM from LaCie (503 844-4 sales@lacie.com) may bill. The \$800 drive, which connects using a SCSI interface only, can store up to 4 Gb on a double-sided DVD disk. The drive, which is manufactured by Panasonic, also read CD-ROMs, audio and prerecorded DVDs. The special DVD disks that write can only be read by the newest, so-called fourth-generation DVD drives.

QUESTIONS? COMMENTS? E-mail tech&you@businessweek.com or fax (202) 383-2125

HIDEBOOKS FOR THE ROAD TO RICHES

You could go broke buying all the books that promise to make you rich. Stop by your local bookplex and see what I mean. At a Barnes & Noble near my house, I found 56 shelf-height next to the high-traffic coffee bar that were devoted to the genre. It doesn't include the hot-sellers that are propped up on tables. There are financial-advice books for dummies, and the clueless. There are skinny ones and hefty tomes. There is a lot for right-brain thinkers and lots for the stressed-out. There are books for girls who need cash, books for students, books for gays in a hostile world, books for the unrelentingly greedy, and even books for the fearful. I must confess, though, I can't bear to pick up *God Wants Me to Be Rich*. It would only confirm the way I've let Him down. Or you, well, you might ignore them. But they proliferate for a reason: We need some concrete help with our finances, and this craving has become so intense that it's now a condition of our times. Just as we've free love animated so many in the 1960s, the common impulse now is to find some way to calm that anxiety about money. My bookstore has twice as much shelf space to devote to finance as it gives to sexual-iree decades, we've gone from *Sex, Lies, and Money* to *Our Money, Our Relationships: Redesigning Your Relationship with Money*, a new volume that promises to "realize that a money-attitude can help them achieve in their daily lives and just plain have fun." Tell that to your guru. The market has exploited demand for help better than Suze Korman's *The 9 Steps to Financial Freedom*, (\$23), which has headed *WEEK's* best-seller list for the past few months. Because Orman has professional training and got her start as a stockbroker, because her telecasts range from *The Oprah Winfrey Show* to QVC, and because she has linked spirituality to financial making, you might be tempted to buy. You might even imagine she'd write something like this:

"The little voice inside you is actually a powerful signal—I believe it is the voice of God—and if you listen to it, and take action based on what it tells you to do, it will keep you safe and sound.... That will empower you to make money." And if you imagined that, you would be right.

But you would be wrong to ignore Orman entirely. Nestled inside her cocoon of human-potential bunk are fine chapters on estates, trusts, and insurance—the three deadliest topics on earth—which she handles deftly. The book's single-best section, "How It Feels

Overwhelmed by the stack of books on personal finance? Here's help



To Be a Stockbroker," is must reading if you use or are tempted to use a full-service broker. It's short enough that you can absorb it while standing at the bookstore's personal-finance section. Look for it on page 204. Orman's next book, *The Courage to Be Rich* (Riverhead, \$24.95), is due in March. Like *9 Steps*, its core of hard-headed advice on such sticky issues as marriage and divorce is swaddled in blarney.

Left unexplored by Orman—and her many imitators—is the plain fact that getting in touch with financial reality means appreciating not just our potential but also our limitations. Happily, my favorite new book fills that bill neatly. **Why Smart People Make Big Money Mistakes—and How to Correct Them** (Simon & Schuster, \$23), by Gary Belsky and Thomas Gilovich, is a mighty effort to popularize the findings of researchers in a growing field known as behavioral finance, which turns out to be a mixture of psychology and economics. Gilovich, a Cornell University psychology professor, and Belsky, a financial writer, decode the academic studies that show that people are mentally wired to make irrational financial decisions, such as selling winning stocks too soon or holding losers for too long. Better yet, the authors also offer plenty of practical advice on arming yourself against your worst instincts. This is great stuff, fresh and genuinely helpful. My one complaint was that I had to strain to understand some sections, especially a devilish one on probability theory that even the authors confessed was hard to explain. I hope they rewrite that part for the paperback edition.

You'll breeze through **The Motley Fool's Rule Breakers, Rule Makers** (Simon & Schuster, \$25), David and Tom Gardner's slightly padded effort to complete the trilogy on investor democracy they began with the best-selling *The Motley Fool Investment Guide* and *You Have More Than You Think*. The brothers Gardner, who operate the highly trafficked Motley Fool online sites, lay out a two-step investment scheme: First, buy stocks in companies that set the rules that their rivals must play by—the Coca-Colas,

Intels, and Wal-Marts. Then, put some money on upstarts that look as if they might just be able to break those rules successfully—that is, the next Intel Corp. or Wal-Mart Stores Inc. The book is well-written and often amusing. The difficulty here is that, for all of the Fools' elaborate posturing as truth-telling court jesters, the advice that they have to offer has become pretty conventional, stuff like the wisdom of investing in a strong brand such as Coca-Cola's. For a jester, that amounts to malpractice.

While the Fools occupy one stronghold in the online-investing revolution, the thousands of men and women who have quit their day jobs to trade stocks moment-by-moment via PCs are storming others. **The Electronic Day Trader** (McGraw-Hill, \$34.95), by Marc Friedfertig and George West, burst on to best-seller lists last year, and this year the same publisher is following its success with a very similar **How to Get Started in Electronic Day Trading** (\$24.95), by David S. Nassar. As guidebooks into this new terrain—where only the quick, the brave, and the ready-to-lose-their-shirts should roam—both have some value. The first is at times impenetrable: "This predicted and experimentally confirmed profit and loss statement (P&L) of zero using this strategy tells us we now have a random model that relates pick strategy, entrance and exit points and profit per share." Nassar's book is clearer and more engaging, but both books left me wondering how straight the advice is: Their authors run schools aimed at...you guessed it, electronic day traders. **The Millionaire Kit** (Times Business, \$29.95) comes with a gimmick: "Millionaire-Maker" software on a CD-ROM (3 megabytes, Windows and Mac). The package, by Stephen L. Nelson, is one of a flock of new books (*The 401(k) Millionaire* is another) devoted to turning plain folks into millionaires. That's a bull-market notion that caught on in 1996 with *The Millionaire Next Door*, the paperback version of which still tops BUSINESS WEEK's list. There are no surprises in *The Millionaire Kit*, just a lot of solid advice for beginners. "The real secret of wealth—if there is a secret—is that there are no secrets," Nelson writes. Yes! But why did I have to wait until page 184 to learn that? As for the software, which I tested on both a personal computer equipped with Windows and a Mac, it proved a bit disappointing. The 19 little programs, designed to reckon how much money you need in

a rainy-day fund and such, are primitive, especially compared with what's available today on such free Internet sites as www.financenter.com. To Nelson's credit, the software also includes a Web-ready directory that has links to scores of rich, unaffiliated sites, including BUSINESS WEEK Online.

A perennial best-seller, **The Wall Street Journal Guide To Understanding Money & Investing**, by Kenneth M. Morris and Alan M. Siegel (Lightbulb Press/Fireside, \$14.95), is a skinny, dense paperback that conveys all kinds of knowledge swiftly via many



Only the ready-to-lose-their-shirts should consider electronic day trading

graphics. You knew that "simoleons" is a synonym for money, but how about "rocks," "spondulicks," or "the ready"? Each discrete topic is researched and cut to cubic-zirconian perfection, which makes this a fine fast-reference book. But where is the "understanding"? What's it all about? You may as well ask Alfie. Also, this 1993 book needs an update: Its helpful index had four references to inflation, but none to today's worry, deflation. For one simoleon more, a better bet from the *Journal* is its **Lifetime Guide To Money** (Hyperion, \$29.95). It has all the information organized in the way it should be, according to the readers' ages and the situations they must cope with. It is sophisticated and nearly encyclopedic, yet clear.

Stephen M. Pollan, a Manhattan lawyer and financial adviser, turned lots of heads with his first book, *Die Broke*.

He's back now with **Live Rich** (Hyperion Business, \$25), in which he and author Mark Levine try to demolish "myth that the emotional and psychological rewards of work are just as important as, if not more important than, its monetary rewards." Pollan says this is neurotic. His advice? Turn the canary and watch as your money slowly disappears. Well, I'm old enough to worry that he might be right, but it also occurs to me that setting apart from finding meaning in life is just what you'd expect from a lawyer. In any case, Pollan's five pages are provocative and worthwhile. But stop there: The next amount to a major advice-dump on everything from insurance to the importance of good hygiene.

More worthwhile, if you care to arrange it, would be debate pitting Pollan against the dedicated talk-radio show host Ramsey, whose 1997 book *Five Minutes to Peace* taught basic lessons in personal bankruptcy and debt reduction from a Christian perspective. Now, with **More Than Enough** (Viking, \$22.95), Ramsey explores the intersection of personal virtue and finance. "Jesus said perfectly," Ramsey writes. "For by your treasure is, there your heart is also." Little in Ramsey's book is questionable, but neither is there much you'll be able to take to the bank. It boils down to Jane Bryant Quinn's in an airplane seat between Bill Clinton and Bill Bennett, with Dr. F. flight attendant: "Around the subway money, being real is something as hard for most of us even with our closest loved ones," Ramsey notes. "We are more prone to talk about sex."

Were this economic expansion setting endurance records, no publisher would have titled a personal-finance book *More Than Enough*. Is that because the pendulum between loss and money is ready to swing back to romance? True, it's nearing Valentine's day, but it's a possibility I couldn't ponder when I returned to New York & Noble the other day and spent a tableful of books devoted to romance. Hard by the coffee bar where the frocked Beardstown Ladies have sway lay piles of *The 10 Second Rule*. Also, *10,000 Ways to Say I Love You*, and, naturally, *The Complete Guide to a Healthy Relationship*. I'll pick that one up, as soon as I have my credit cards.

BY ROBERT FRANK

Senior writer Barker follows the market and its attendant manias.

Intel Inside... ViewSonic® on top!



(PC Sold Separately)

Turn traditional thinking on its ear.

Today, regardless of the PC brand you choose, the most important component is not the computer. It's the monitor.

Yesterday the hot phrase was "Monitor Sold Separately." Today, it's "PC Sold Separately." Technology blurs the lines between one computer and another. They're all fast, all loaded, all pretty much the same.

What's different, what's exciting is happening in displays—multimedia monitors with built-in teleconferencing capabilities and flat panel displays you can mount on the wall.

The new ViewSonic VG180, 18.1" viewable LCD ViewPanel® is a case in point. It features a 160° viewing angle, a spectacular true resolution of 1,280 x 1,024, a rock solid image and amazing performance. By putting ViewSonic's VG180 ViewPanel on top of your priority list, you'll ensure your Visual Computing™ experience is excellent.

At ViewSonic we developed the VG180 with your vision in mind. TCO '95 certification. Warranty; 3 year parts and labor, one year back light. Express Exchange® Service option available.

**For more information, visit our website at:
www.ViewSonic.com/busweek**

(800) 888-8583 • Specifications subject to change without notice
Copyright © 1999, ViewSonic Corporation • All rights reserved
Corporate names and trademarks are property of their respective companies
Intel and the Intel Inside logo are registered trademarks of Intel



www.ViewSonic.com



If there's the tiniest little hole



 Bugs from the Internet to your PCs.

THE INTERNET IS TO THE COMPUTER VIRUS WHAT THE AIRPLANE IS TO THE BIOLOGICAL VIRUS: IT TRAVELS AROUND THE WORLD, AND IT'S POPULATED BY EVERYONE, HEALTHY OR NOT. THAT'S WHY MCAFEE TOTAL VIRUS DEFENSE (TVD) FENDS OFF VIRUS ATTACKS ANYWHERE THEY

HAPPEN ON YOUR NETWORK, USING A MULTI-LAYERED DEFENSE AGAINST THE SCUMBAGS, HACKERS AND MALICIOUS CODE CRACKERS OF THE WORLD.

 Up-to-the-Minute Extermination.

WITH OVER 400 NEW VIRUSES FOUND EVERY MONTH, YOU'RE EITHER UP-TO-DATE WITH ALL YOUR VIRUS PROTECTION, OR YOU'RE TOAST.

MCAFEE TVD KEEPS PEOPLE YOUR COMPANY UP-TO-A MINIMUM OF HASSLE. UPDATES TO YOU AUTOMATICALLY OVER THE INTERNET. KNOW YOU HAVE THE IT GREATEST. NO WONDER. ON MORE THAN 60 MILLION PUTERS AROUND THE GLOBE.

...r net, they'll find it.

N
e
t
T
o
o
l
s

McAfee Total Virus Defense

PGP Total Network Security

Sniffer Total Network Visibility

...eed Meets Integration.

...ING ANTIVIRUS TECH-

...TEGRATED WITH COM-

...ING, ALERTING AND

...AND IT'S ALL BACKED

...EMERGENCY RESPONSE TEAM

...SPREADS TO NEW VIRUSES

...THE SUN" COVERAGE

...ES ON 6 CONTINENTS.

IT'S NOT JUST THE BEST DEFENSE;

IT'S THE BEST OFFENSE, TOO.

 Kill Bugs Dead.

CALL 800-332-9966, DEPT. 1949,

FOR OUR WHITE PAPER ON MULTI-

LAYERED DEFENSE, OR VISIT US

AT WWW.NAI.COM. THEN GO GET

THE BEST IN PEST CONTROL, WITH

MCAFEE TOTAL VIRUS DEFENSE.

Magic Total Service Desk

 **network**
ASSOCIATES

Who's watching your network

BY ROBERT KUTTNER

THE ECONOMY: CLINTON HAS PLAYED HIS CARDS WELL



GOOD HAND:
Disinflation
and a tech
boost gave
him a great
opportunity
—and he
didn't bungle
it. That's
harder than
you think

As Presidents invariably assert, the state of the union is good. More pertinent, the state of the economy is very good. Indeed, if Clinton is spared the further indignity of removal, it will be in no small part because most Americans consider him a competent economic steward. But how much credit does this President really deserve?

A big piece of Clinton's success was good timing. For starters, the 1990s have been a decade of disinflation. After the oil bubble burst, after commodity prices crashed, and after the economy rebounded from the Federal Reserve's tight-money cure of the early 1980s, lower inflation was virtually predestined, no matter who was President.

The high unemployment rates of the '80s and '90s and deregulation further dampened inflationary wage pressures. Moreover, after a prolonged lag, the economy was set to reap the benefits of information technology, yielding higher rates of productivity growth and subsequent economic growth. Disinflation also set the stage for a remarkable surge in the stock market.

So by the mid-1990s, the economy was primed for a period of sustained noninflationary growth. That permitted lower unemployment, which meant workers finally shared in the gains.

BROKER. Still, let's give Clinton—and Federal Reserve Chairman Alan Greenspan—some credit. First, Clinton took big political risks in 1993 to broker a budget deal. Despite Republican resistance to higher taxes and dire predictions of recession, the deal was tolerably fair and macroeconomically appropriate. It combined spending cuts in both military and social programs with modest tax increases for those able to pay. It produced fiscal contraction but at a gradual pace that didn't induce recession.

That, in turn, allowed the Fed to ease the monetary brakes and produce not just a "soft landing" but also sustained growth. The effect of deficit reduction on growth, however, may have been more psychological than real. The Fed and the money markets needed a budget deal in order to deliver lower interest rates. But the budget surplus, which came in 1998, four years ahead of schedule, was mostly the result of higher growth rooted in technological and structural changes. It was not mainly the fiscal fruit of spending cuts and tax hikes.

Clinton nevertheless deserves credit for achieving a collaborative relationship with the Fed chairman. And Greenspan deserves kudos for breaking (albeit belatedly) with conventional wisdom of most economists. His handlers on the Fed's senior staff, including Greenspan, a master at doing his own search, faced down the Fed's hawkish members and grasped that this New Economy could tolerate higher rates of noninflationary growth. After all, the Clinton-Greenspan alliance was no way inevitable. The last Democratic president, Jimmy Carter, went down in part not primarily because of the Iranian hostage crisis but because he and the Fed's chairman, Paul A. Volcker, were pulling in different directions.

MIXED BAG. Faster growth is the big success story of the Clinton Presidency. Elsewhere Clinton has been so-so. His performance on international economic matters has been mixed. Russia remains an economic puzzle, and Asia was a near-miss. Brazil's minds us just how vulnerable the whole capitalist system is. NAFTA was oversold, jeopardizing any further liberalization of trade. If prosperity falters, however, it will very likely be the result of an international shock that Clinton and his team lacked the vision to anticipate or contain.

Despite right-wing fervor, growth was constrained by the lack of a tax cut. In other words, Clinton's critics on the liberal left have the stronger case. He can reasonably be blamed for overdoing fiscal discipline at the expense of needed social investment, bungling health reform, for paying too much heed to the economy's have-nots, and for being too ready to gut Social Security and Medicare.

In sum, economic events handed Clinton a rare opportunity. But not fumbling that opportunity is harder than it looks. Early in his term when the budget was a nightmare and the economy shaky, Clinton played a weak hand well. Later, as the economy strengthened, he played a strong hand cautiously. Clinton's relatively competent economic stewardship, the source of his political survival, makes his self-inflicted impeachment wounds all the more appalling. Any president was likely to bask in this era of disinflation and resurgent productivity, but the degree of our current economic success was not quite guaranteed.

graphed at the Sheraton Seattle. Drop in at www.sheraton.com



Surf the web with your laptop. Then retreat to the pool for some in-depth analysis. We give you access to the virtual world and breathtaking views of the real one. So before you travel on business, call us, or contact your travel planner.



Sheraton
HOTELS & RESORTS

1-800-325-3535

THERE IS A FINE LINE BETWEEN BUSINESS AND PLEASURE. CROSS IT.

Sheraton is a subsidiary of Starwood Hotels & Resorts Worldwide, Inc.

WorldNet®
Service

Sign up for the Internet service that gets you on the Net faster and easier. And with Excite Online™ powered by AT&T WorldNet® Service, finding stuff is even faster because your favorite news, sports, Web links and more are right on your screen when you log on. Why wait? Call 1 888 GET XCIT ext. 7023.



Lotus.

An IBM Company



SUPERMAN CAN FLY BUT STILL GETS JETLAG

Superman? Or does she use R5? The new Lotus Notes® and Domino® make it easy to manage your world by giving you a single point of access to e-mail, calendars, intranets and Web sites, so you can be productive from wherever you are. Go to lotus.com/superhumansoftware

R5 ► SUPER.HUMAN.SOFTWARE

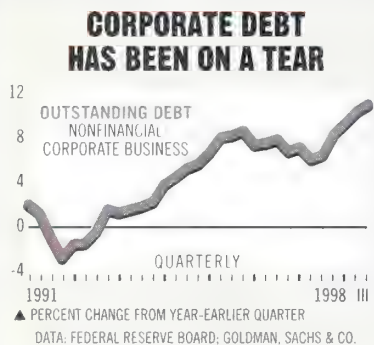
BY GENE KORETZ

CAPITAL OUTLAYS VS. BUYBACKS

Finance strains may force a choice

Could Corporate America's increasing concern with stock market performance help put the brakes on the current capital spending spree? That's a scenario that economist John M. Youngdahl of Goldman, Sachs & Co. believes could well unfold in the year ahead.

Most economic omens suggest that U.S. capital spending should already be slowing sharply. Recessions abroad have hit U.S. manufacturers hard, capacity



has been expanding rapidly, and factory operating rates have fallen below 80% for the first time in five years. Yet real business investment outlays, at last count, were still buoyant—up nearly 9% on a year-over-year basis, as measured by the Commerce Dept.

As Youngdahl sees it, one explanation of this vigor is the stock market boom. According to economic theory, it makes sense to pour money into a company via capital outlays in periods when equity values exceed replacement costs of equipment. And that's exactly what's occurring today, with stock valuations at their highest levels since the 1960s. At the same time, however, management's focus on stock-market performance is inspiring a huge wave of stock buybacks, pushing net repurchases of corporate equity to a record \$158 billion in the past year.

What's unusual, says Youngdahl, is that companies are trying to meet both these goals—capital spending and stock buybacks—in the face of growing internal financial constraints and record business borrowing. In the wake of weakening profits and pricing power, cash flow is up a mere 0.5% over its year-

earlier level, while net business borrowing activity surged by 72% in the 12 months ended in September (chart).

The real puzzle, says Youngdahl, is the willingness of companies to borrow to finance stock buybacks. In past profits slumps, notes Youngdahl, companies tended to increase borrowing to fund buybacks only if stock valuations were unusually low. When shares looked expensive, they actually issued more stock than they retired. This time around, though, they are buying back shares amid a record market boom.

In Youngdahl's opinion, this trend reflects a "paradigm shift" in corporate strategic thinking toward emphasis on short- and medium-term stock performance. With so much of executives' compensation and evaluation now tied to stock market performance, he says, their willingness to borrow to fund equity purchases—and thus bolster stock prices—even when stocks look overvalued, becomes understandable.

The problem is that this situation is unsustainable unless earnings improve soon. If profits remain weak, predicts Youngdahl, lenders are likely to boost interest rates and tighten availability—forcing businesses to choose between putting investment outlays on the chopping block or curtailing share buybacks.

"In the present management climate," he says, "it looks like capital spending would prove more vulnerable."

CEO SUCCESS IS ITS OWN REWARD

Stock prices greatly affect pay

It's hardly news, as John Youngdahl points out above, that top executives are more concerned with stock market performance than in past periods. What observers may not appreciate, however, is just how much corporate chiefs have riding on the market.

According to a study in the *Quarterly Journal of Economics*, the amount far outweighs other forms of compensation. In the study, Brian J. Hall and Jeffrey B. Liebman of Harvard University combed through proxy statements of 478 major U.S. companies, analyzing executive pay from 1980 to 1994. With the aid of options-pricing models, they were able to measure how much CEOs were making in total, and how their pay correlated with their companies' stock performance.

The results are eye-opening, to say the least. For any given shift in compa-

ny value, the two researchers found that changes in CEO pay due to stock and option revaluations are more than 50 times larger than changes in pay from salary and bonus. Thus, for the average CEO, says Hall, "salary and bonus changes account for only a small portion of total pay-to-performance sensitivity. Stock and stock-option changes account for the rest."

What's more, in another recent study with Harvard business school colleague George P. Baker, Hall found that top executives who own only a small stake in the business can have powerful incentives to raise their compensation—share price—if the corporation's stock price is high enough. "Jack Welch, for example, owns less than 0.1% of General Electric," Hall notes, "but if he were to see stock price changes that raised GE's value by 5%, his own net worth would increase by about \$8 million."

CRUISING INTO THE NEW YEAR

A likely seasonal boost for Q1

With the economy coming out of last year's final quarter slump, growth rate likely to weaken slightly in the first quarter? Not in the opinion of economist Edward S. Duff of International Strategy & Investment Group Inc., a Wall Street economic consulting firm.

Hyman notes that first-quarter growth has been robust in each of the last three years, suggesting that a seasonal pattern is affecting the economy. Gross domestic product growth in the first quarter, reflecting the effect of earlier and larger tax refunds, bigger bonus pay, and increased post-Christmas sales.

Judging from ISI's mid-January surveys of retailers and auto dealers, Hyman thinks a similar pattern is likely to surface in the months ahead. Significantly, individual tax refunds in fiscal 1999 (through early January) have been posting double-digit increases over year-earlier levels.



HOW MUCH MOMENTUM THERE, EXACTLY?

t, based on fourth-quarter growth. But Greenspan has concerns

S. ECONOMY

Back in September, Federal Reserve Chairman Alan Greenspan warned that "it is just not credible that S. can remain an oasis of prosperity in a world experiencing greatly increased stress." Well, so as done just that. In fact, the economy's pace appears to have been faster in the second half of 1998 than in the first half.

ed, the economy may well have grown in the neighborhood of 5% in the final quarter of 1998. No one knows for sure until the Commerce Dept. reports on domestic product on Jan. 29. There are still plenty of unknowns that could sway the upcoming GDP report, especially since Commerce will have to estimate available December data on foreign trade and inflation. These two swing factors, by themselves, often account for one or two percentage points in the overall growth rate. But based on available preliminary data, domestic demand appears to have powered growth far beyond what nearly all economists expected possible only a few months ago.

NOMINAL GROWTH CONSUMER SPENDING



The important question is: How much of the economy's momentum carried over into 1999? Already, economists are nudging up their forecasts for this year's growth, based on the expectation of peppy growth early in the year. However, threats to the U.S. oasis have not gone away. Brazil's decision to devalue the real will worsen the economic

for Latin American countries, key markets for exports. Also, Wall Street's volatile reaction to the situation suggests that equity gains may not contribute as much to consumer and capital spending this year as they did in 1998.

STOCK PRICES

and their impact on the economy were very much on Greenspan's mind when he testified before Congress on Jan. 20. He noted their influence in the economy's robust performance of late, especially in the consumer sector. However, he also noted that some slowing in economic growth might be required to sustain this nearly eight-year expansion. "By the end of 1998," he said, "the economy cannot grow more rapidly than can be currently ac-

commodated on an ongoing basis, even with higher technology-driven productivity growth."

Much of the economy's rapid growth has been powered by consumers. That was especially true in the fourth quarter. Strong December retail sales and a gusher of auto purchases mean that growth in real consumer spending may well have hit 6%, at an annual rate, last quarter—and that's two-thirds of GDP. If so, growth in consumer outlays during the four quarters of 1998 would end up at a phenomenal 5.5%, the strongest four-quarter pace since 1984.

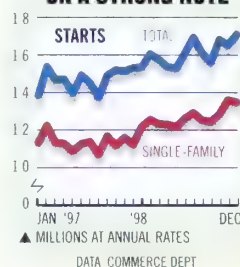
WILL CONSUMER SPENDING

come back to earth in 1999? The answer is crucial to the outlook, because last year it accounted for some 90% of the growth in overall GDP. Add in homebuilding, and the two sectors more than accounted for last year's total economic growth (charts). But consumers in 1999 are unlikely to receive the support from the labor market and stock prices that they enjoyed in 1998. More likely, consumers will pull back a notch, as companies restructure to cut costs and as stock prices grow in more normal ranges.

Greenspan noted that capital gains have significantly boosted consumer spending by allowing households to outspend their incomes, resulting in a negative saving rate. Greenspan said that all or most of the decline in the saving rate is accounted for by the upper income quintile, where capital gains have disproportionately accrued. However, he also pointed out that "a flattening of stock prices would likely slow the growth of spending, and a decline in equity values, especially a severe one, could lead to a considerable weakening of consumer demand."

Indeed, some of the fourth quarter's momentum in consumer spending, housing, and business investment may fade as early as the first quarter, given that some one-time factors boosted the fourth quarter. For one, dealer incentives lifted the quarter's car sales, which accounted for more than a percentage point of the growth in consumer outlays. Some December vehicle sales were likely borrowed from early 1999 sales. Retail sales in December rose a strong 0.9%, al-

HOUSING ENDED 1998 ON A STRONG NOTE



though excluding car buying, sales rose only 0.4%.

Dining out was popular last quarter. Sales at restaurants and bars posted the largest quarterly increase in six years, perhaps related to the unseasonably mild weather during most of the quarter. A return to winter weather this quarter will cut restaurant receipts back to normal.

A similar, but more consequential, weather-related swing is likely for housing. Residential construction in the fourth quarter appears to have posted another quarter of double-digit growth, helped partly by the good weather. December housing starts rose 3.5%, to an annual rate of 1.72 million.

Sales and starts in 1998 ran far ahead of new household formations, and some pullback in 1999 appears likely. But housing fundamentals remain solid, according to builders. The National Association of Home Builders' housing market index, which comprises builders' assessments of current and expected market conditions, dipped two points in January, to 76%, but that was down from a record 78% in December. Builders were less confident about future demand, although the readings on current sales and buyer traffic through model homes declined only a bit.

BUSINESS INVESTMENT in new equipment also made a solid contribution to fourth-quarter GDP growth, but equipment outlays are especially vulnerable to slower

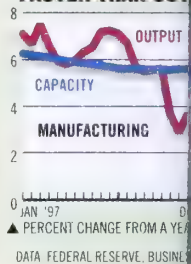
growth in 1999 in the face of weak profits, tightening standards by banks, and recent low rates of capacity utilization in manufacturing. In fact, additional manufacturing capacity have already started to appear. Growth had reached 6.4% in 1996, but by the end of 1998, growth had fallen to 5.6%.

Still, since early 1998, manufacturing capacity has been growing far faster than output (chart). Factory output rose only 0.2% in December after a slim 0.1% gain in November. The rate of factory capacity use fell in December to 79.9%. Except for the strike period at General Motors Corp. last year, that is the lowest utilization rate in more than five years.

Even if weak cashflow and costlier financing were standing in the way, manufacturers would have been incentive to add to their already plentiful capacity.

To what did we owe 1998's extraordinary growth? Low inflation and interest rates top the list. They boosted consumer buying power and demand, and fueled the stock market's exceptional gains that allowed for increased spending. Can growth remain that powerful in 1999? The fourth-quarter numbers seem to answer yes, but don't count on it.

CAPACITY IS GROWING FASTER THAN OUTPUT



DATA: FEDERAL RESERVE, BUSINESS WEEK

ARGENTINA

HEADING FOR A FALL

Government officials in Buenos Aires are manning the peso barricade, and they seem willing to surrender economic growth in the battle. After Brazil devalued the real, wary investors put near-by Argentina under scrutiny. Interest rates soared, and peso futures plunged as some investors bet Argentina would have to follow its northern neighbor and devalue.

In response, the government of President Carlos S. Menem made it clear that the peso would remain pegged to the U.S. dollar, as it has been since 1991 when he launched the convertibility plan to fight inflation and economic stagnation. The program has worked well—inflation

in 1998 was under 1% for the third year in a row.

However, the Brazil problem may be the plan's biggest challenge. Argentina holds more than enough foreign reserves—\$27.5 billion—to back the peso. And the government's finances are set until June, so there is less need for outside funds.

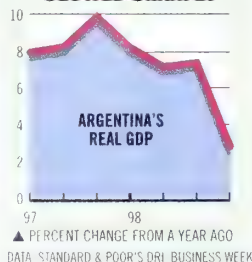
Still, with Brazil buying about a third of Argentina's exports and with interest rates soaring as investors pull money out of emerging markets, Argentina's economy will likely take a fall.

The Economy Ministry is sticking with its 1999 forecast of 2.5% to 3% growth in real gross domes-

tic product, but Minister Roque Fernandez admitted that GDP could fall as much as 1%. Output was already easing in the second half of 1998 because of global turmoil (chart). And private economists have cut their 1999 projections to show a GDP decline between 1% and 2%.

A flat economy means that rising unemployment will likely become a campaign issue when presidential elections are held in October. The jobless rate in the fourth quarter was down to 12.4%, after rising high as 18.4% in 1995, but the rate is expected to head much higher this year. Already, Ford Motor Co. has announced the dismissal of 1,400 workers in Argentina because of the poor sales outlook. Unfortunately, such reports are likely to become routine in 1999.

GROWTH HAS ALREADY SLOWED SHARPLY



DATA: STANDARD & POOR'S DRI, BUSINESS WEEK

You can be young without money, but you can't be old without it."

— Tennessee Williams

as little as \$100 a month through *EasyInvest*.SM

When you're young, it can be hard to even imagine retirement, much less save for it. But with our *EasyInvest*.SM, it really is easy to plan for retirement. You can invest in one of our mutual funds for as little as \$100 a month. And the money's deducted automatically from your checking account. It's pretty close to painless. For more, call one of our Financial Advisors. They'll do a personalized analysis of your financial situation. They'll show you which funds can help you meet your individual goals.

Morgan Stanley Dean Witter Family of Funds

1 800 THE DEAN / WWW.DEANWITTER.COM/FUNDS

MORGAN STANLEY DEAN WITTER

Measuring success one investor at a timeSM



For a free brochure and a prospectus, which contains complete information on risks, charges and expenses. Read the prospectus carefully before you invest your money.

SM is a free service that allows you to invest automatically from \$100 to \$5,000, semimonthly, monthly or quarterly, on days you designate. The money is transferred from your checking or savings account into your existing Morgan Stanley Dean Witter mutual fund account. For most of our funds, a plan can be opened through *EasyInvest* with a minimum initial investment of \$100. However, your investment schedule must result in investments of at least \$1,000 in the first 12 months. Of course, systematic investment plans, like *EasyInvest*, cannot assure a profit or protect against a loss in the markets.

Morgan Stanley Dean Witter is a service mark of Morgan Stanley Dean Witter & Co. Services are offered through Dean Witter Reynolds Inc., member SIPC.

Morgan Stanley Dean Witter Distributors Inc. Member SIPC.

ADVANTAGE, CLINTON



The President's plan for Social Security reform puts the GOP on the defensive

For months, GOP lawmakers taunted President Clinton to stop clucking about Social Security and offer a real reform proposal. In his Jan. 19 State of the Union address, he took the dare—and brazenly outmatched the GOP on its own privatization rhetoric. That left furious Republicans sputtering. But it may give the President and fellow Democrats the chance to take credit for jump-starting the reform process.

For a moment, at least, the bold initiative also succeeded in showcasing the President as chief executive rather than impeachment defendant (page 34). But can his "Save Social Security Now" plan survive as policy? It's a clever combination that can placate liberals who hold Roosevelt's legacy sacrosanct while undercutting Republicans who want to replace a chunk of the system with individual private accounts. As for the public, Clinton is promising a painless

cure for what has been billed a national disaster.

Clinton is relying on big and generous federal surpluses to shore up the system. Then he hopes to boost Social Security's anemic returns by, for the first time, investing a portion of the fund's assets in stocks (page 32). To spur savings, workers would get a \$400 a year from the government seed money for individual 401(k) investment accounts.

"BELLS AND WHISTLES." Does the President have a closet privatizer? Hardly. Launching a plan that preserves the system rather than remakes it, the current system can't, however, guarantee that Social Security will not run out of money in the 21st century. "All he is adding bells and whistles," fumes Martin Regalia, chief economist for the U.S. Chamber of Commerce. "Social Security is [still] sliding into the abyss."

There's no question that Clinton

BusinessWeek **ONLINE**

For daily business news, visit
businessweek.com or AOL: Keyword: BW



CLINTON, VICE-PRESIDENT
GORE, AND SPEAKER
HASTERT

as politically adroit. Now, Republicans are on the defensive. They justify why they favor a fundamental overhaul of the popular system of the President's less radical. At the same time, they must say it's better to use the surplus for a tax cut instead of setting it for Clinton wants, for Social Security and Medicare. "First, they complain we didn't put a plan on the table," Representative Barney Frank (D-Mass.) says. "Now, they'll complain he has a plan they don't like it."

A combination of surprise and presents vintage Clinton. "It is just a tidal wave [Republicans] on the '95 deal," says a Hill Democratic aide. "I dared him to submit a budget, and, to their amazement, it didn't add up, but they never said that. He was able to spend the year saying, 'I have a plan, and I don't.'"

But can Clinton still pull off that kind of coup? A long impeachment trial could chew up the goodwill needed for reform. And business, most Republicans, and conservative Democrats oppose the idea of Uncle Sam owning a chunk of Corporate America. Count Federal Reserve Chairman Alan Greenspan among the nonfans, too. On Jan. 20, he applauded reserving the surplus for Social Security—but blasted government stock investment as potentially dangerous.

The President's critics also question his basic assumptions about a continuing budget windfall. White House economists project a surplus of about \$4.4 trillion over 15 years. That's not out of line with a new Congressional Budget Office forecast of a \$2.1 trillion surplus over 10 years. But such long-range estimates can be wildly inaccurate. "To project a surplus over the next 15 years is very brave," says PaineWebber Group Inc. CEO Donald B. Marron.

Those brave projections, however, are key to Clinton's plan to shift \$2.7 trillion into the trust fund over 15 years. Up to \$675 billion would be invested in stock portfolios, perhaps in index funds. That would give the feds ownership of 4% of Corporate America. But Clintonites insist the government would be a passive investor, insulated from investment decisions and corporate governance.

Even Clinton concedes that his plan can't bring about a permanent fix: It would simply postpone the day when the system can't pay out all its benefits from 2032 to 2055. White House economic aide Gene Sperling promises "tough-minded bipartisan decisions" to close the gap. In other words, tax hikes or benefit cuts would still be necessary. That approach, scoffs a Senate Republican aide, amounts to "dessert now, spinach later."

Still, Clinton has at least put Social Security in play. And, to burnish his place in history, he's eager to see results. That means the Administration may accept a further tilt toward privatization as the proposal slogs through

the GOP-controlled Congress. The White House has kept back channels open to both Democrats and Republicans, sending a very Clintonesque message: Everything's negotiable. "It's enough to get the debate going," says Representative Charles Stenholm (D-Tex.). And the debate should be a boisterous one. At a Jan. 21 House Ways & Means Committee hearing, Republicans were set to dig in: Committee Chairman Bill Archer (R-Tex.) vehemently opposes the idea of government stock investments. And even more moderate Democrats, such as Stenholm, have qualms.

COMPLEX TASK. Besides, critics insist, there are no painless cures. The only way to truly fix Social Security, they say, is to cut benefits, hike payroll taxes, or significantly boost returns. Clinton's small-bore stock investments, doubters

add, won't produce enough cash. "It's not as simple as adding money and investing in stocks," warns PaineWebber's Marron. "We need an appropriate return."

What's more, Republicans and business leaders are dead set against any plan that might turn the federal government into the world's biggest activist shareholder. For years, investment managers of public pension funds have pushed corporate managements to adopt various social policies—such as protesting South Africa's apartheid system. The New York State and California pension systems have been particularly active and, from the corporate perspective, pesky shareholder-

ers. Administration officials insist such concerns are unfounded.

Criticism will only grow in the coming months. But Clinton is likely to push his Social Security plan as if his life depended on it. And in a sense, it does. It is crucial to the President's impeachment-survival strategy to show that he can still do some legislative heavy lifting. Even with its defects, his plan could revive Social Security reform—and boost his troubled Presidency.

By Howard Gleckman and Mike McNamee, with Amy Borrus, in Washington

KEY POINTS OF THE CLINTON PROPOSAL

- 1** Over 15 years, \$2.7 trillion in general revenues would be shifted to the Social Security Trust Fund to shore it up.
- 2** 25% of this new cash would be invested in stocks. The two elements are intended to eliminate almost half of the fund's long-term shortfall.
- 3** The government would fund modest individual 401(k)-type accounts, separate from Social Security. Workers could make additional contributions, which would be matched, in part, by Washington.

DATA: THE WHITE HOUSE/BUSINESS WEEK

CALM DOWN, EVERYONE

Investing Social Security funds is no cure, but no calamity

COMMENTARY

By Owen Ullmann

It took about a nanosecond for President Clinton's call to invest some Social Security funds in the stock market to ignite a raging debate. Even before Clinton publicly unveiled his plan in the State of the Union address, business leaders were fulminating against it. The next day, Federal Reserve Chairman Alan Greenspan called it a threat to capitalism. The Administration and liberal economists say it's just a way to help shore up the retirement system without tax hikes or benefit cuts. Both sides agree on one point: If adopted, the plan would be an enormous change in federal policy, raising questions about the impact on the overall economy, the future of Social Security, effects on markets, and the government's potential to wield influence over corporations.

The biggest concern among business execs—that Uncle Sam would use his leverage as a massive investor to make corporations heel—is understandable. We don't need federal bureaucrats picking stocks or judging management performance. But the Administration has pledged to take every precaution to protect the investments from political meddling. If it can make good on that pledge, the plan represents a good first step toward a compromise that could bolster Social Security and pave the way for both the government and individual retirees to take advantage of Wall Street's higher returns.

How would Clinton's plea to invest \$675 billion in the stock market over the next 15 years affect the economy?

Not much, according to several economists. The reason: It's too small a sum, given the size of our \$8 trillion economy.

The main benefit of a decision to invest a chunk of the budget surplus is that it would boost the nation's anemic savings rate—by preventing politicians from using that portion of the surplus for tax cuts or new programs that stimu-

late consumption. If Clinton dedicated the entire projected surplus—\$4.4 trillion through 2015—to savings, the macroeconomic effect would be more pronounced: lower long-term interest rates, increased capital investment, and growth. But the impact of this plan would be “virtually zero,” concludes David A. Wyss, chief economist at Standard & Poor's DRI.

Federal Reserve Board Chairman Alan Greenspan disagrees—strongly. In testimony on Capitol Hill on Jan. 20, he asserted that Washington couldn't resist making political investment decisions. That, he says, would inevitably mean reduced capital efficiency, productivity, and standards of living.

Would Clinton's plan help Social Security's financing woes?

There is one main argument in favor of putting Social Security money in stocks: It should dramatically raise the rate of return. In this century, equities have produced annual returns averaging 7% after inflation. That's about twice the rate of return the Social Security trust fund makes on the special Treasury securities it now buys.

Is the plan good for Wall Street?

It can't hurt. “A steady stream of Social Security money would be positive for the stock market,” says investment consultant Roger Ibbotson, a professor at the Yale School of Management. But the predominant view is that the size of investment proposed by Clinton would

have scant effect on prices. “The flows we see from mutual funds on a monthly basis would far outstrip ever you get from Social Security,” notes A. Marshall Acuff, equity strategist at Salomon Smith Barney. The plan would pump \$3.75 billion into the market, less than a quarter of the current fund inflows.



appens in a bear market?
 ere is a risk that the public's re-
 it portfolio could get whacked,
 t would not prevent the system
 ying off. Remember, only 25% of
 ire surplus committed to Social
 y would be invested in stocks.
 stration officials say benefits
 mmediately would still be paid
 current revenue. The stock in-
 it plan would be a longer-term
 that would have time to recov-
 er-market gyrations.

**plan put Corporate America
 ncle Sam's thumb?**
 an doubts "it is politically feasi-

that Washington remains a passive in-
 vestor. As proof of its ability to keep its
 hands off Corporate America, the Ad-
 ministration notes that a federal em-
 ployee 401(k) plan has \$30 billion in-
 vested in stocks and bonds, and business
 hasn't complained.

Details have yet to be worked out,
 but one way to keep politics out would
 be to create an independent Social Se-
 curity Reserve Board that would hire
 fund managers to run the funds and
 exercise voting rights. To further re-
 duce the chance for political influence,
 the Social Security board might insist
 that its money be commingled with the
 private pension funds in a broad mar-

commissions that millions of small in-
 vestors could generate. But Muriel F.
 Siebert, CEO of Siebert Financial Corp.,
 parts with her colleagues. She says the
 government can remain a passive in-
 vestor and fears that personal accounts
 could backfire: Neophytes taking on
 risky bets might later require govern-
 ment bailouts.

The strong opposition from business
 and Republicans doesn't augur well for
 the proposal. In fact, it looks like a recipe
 for gridlock. That's too bad. Why not
 compromise by blending Clinton's ideas
 for minimizing risk through government
 investment and GOP proposals to maxi-
 mize personal choice through private in-

PROS AND CONS

*Supporters say Clinton's plan to
 invest part of the budget surplus to
 fix Social Security would . . .*

- Increase the rate of return of
 the trust funds, thus bolstering the
 system's finances.
- Boost the national savings rate
 slightly by keeping Congress from
 fueling consumption by spending
 the money or cutting taxes.
- Provide a new flow of money
 that would support stock prices.
- Let low-income workers who
 can't afford to invest benefit from
 market runups.

*But opponents of the
 plan say it's a bad idea
 because it would . . .*

- Produce a negligible effect on
 the overall economy at best, and
 lead to unproductive investments
 and lower returns at worst.
- Open the door to political inter-
 ference with corporate governance.
- Put Social Security at risk if a
 prolonged bear market seized Wall
 Street.
- Deprive individuals of the right
 to make their own investment
 decisions with their Social Security
 benefits.



o-
 ulate such huge funds from
 ental direction." And the Busi-
 undtable, representing the
 orporations, is already lobby-
 usly against the idea.
 lify these concerns, the Ad-
 on promises to build the thick-
 all possible between the gov-
 and fund managers to ensure

ket index. That would also cut
 the management fee to as little as a
 penny per \$100 invested, compared
 with \$1 per \$100 invested that person-
 al savings accounts are expected to
 cost.

Most Wall Street firms seem to side
 with Republicans, who favor personal
 accounts. No surprise, given the trove of

vestment? The U.S. could start shoring
 up Social Security while enabling more
 people to take advantage of Wall Street's
 potentially higher returns. And Wash-
 ington could get a chance to prove that it
 can invest in Corporate America without
 trying to run the show.

*With Michael Mandel and Peter Coy
 in New York*

WILL THE WITNESSES PLAY IN PEORIA?

Even as the glow fades from Bill Clinton's television triumph—his State of the Union address—the Capitol is gearing up for its next TV show: witness testimony in Clinton's impeachment trial. The Republican House managers say witnesses will clear up conflicting testimony. But without big revelations, will the public be shaken out of its apathy over impeachment? "Calling witnesses has little to do with gathering evidence and everything to do with the TV audience," says C. Boyden Gray, former Bush White House counsel. "Republicans need to make this case come alive to move it from a side court to a center-court spectacle."

But witnesses could do just as much for the defense as for the GOP—especially if the Senate allows the President's lawyers to call witnesses such as Independent Counsel Kenneth W. Starr. Here's how the TV show may play:

Monica S. Lewinsky. House impeachment managers must tread carefully to avoid dredging up anew sordid details of the Clinton-Lewinsky affair. They want to zero in on the crux of the perjury charges: Clinton lied to a grand jury about the true nature of his relationship with the young intern. Democrats, however, think Lewinsky could weaken the obstruction of justice charge against Clinton by repeating that no one asked her to lie or promised her a job.

Betty Currie. Republicans hope the President's secretary would be more forthcoming about why she retrieved a box of Presidential presents from Lewinsky. Currie claims it was Lewinsky's idea; Monica says the opposite. Democrats believe Currie won't waiver—and her stoic loyalty

to Clinton will make prosecutors look petty.

Vernon E. Jordan Jr. The First Friend has stood fast in his insistence that his efforts to land Lewinsky a job weren't part of a cover-up.

Still, House managers are expected to grill the super-lawyer about his efforts on behalf of the intern. Jordan is likely to say that what he did for Lewinsky wasn't extraordinary—he often provides help to aspiring young people. If that sounds fishy, count him as a witness for the prosecution.

Ken Starr. The Clinton team hopes to use him to show that Starr, with the help of Linda Tripp and book agent Lucianne Goldberg, laid a trap for the President. Starr is unlikely to admit entrapment. But probing along these lines is apt to damage the Republican case. Republicans believe Starr will help lay out inconsistencies in Clinton's story.

Linda Tripp and Lucianne Goldberg. This is the defense's dream team. Lewinsky's treacherous, erstwhile friend and the Clinton-hating literary agent will be asked to explain their early contacts with the Paula Jones lawyers. Tripp will be pressed on why she suggested Lewinsky seek Jordan's aid to find a job. The GOP's only hope is that the idea of a conspiracy sounds implausible on the stand.

If Americans expect Perry Mason-style dramatic confessions from these hard-bitten performers, they should change channels. But Republicans are hoping that any bit of daytime drama could help them muster the 67 votes needed to remove the President. If not, this series would wind up being a tearjerker for the GOP.

By Paula Dwyer and Lee Waleczak in Washington



TELECOMMUNICATIONS

A BABY BELL TRIES GOING LO

Bell Atlantic wants to break out of its local market

On Jan. 19, the U.S. Supreme Court turned down a request by 12 Bell phone companies to test provisions of the Telecommunications Act of 1996 that bar them from long-distance service. It was a setback, but it may not slow Bell Atlantic.

By February, the \$30.2 billion company may win approval from New York to sell long-distance service there. It's on to the Federal Communications Commission, Massachusetts, Pennsylvania, and New Jersey. "1997 will be a breakthrough year," says FCC spokesman William E. Kennard.

And these approvals would come too soon. Entry into long-distance is critical to Bell Atlantic's pending \$52 billion acquisition of GTE Corp. and CEO G. Seidenberg's desire to expand the business of carrying Internet traffic over GTE's network. Says President Joe Cullen: "Regional boundaries have no relevance in the real world today."

But victory hasn't come cheap. In April, Bell Atlantic agreed to enter competition by selling use of its facilities in New York to rival companies such as Allegiance Telecom Inc. It wants to offer local service. Bell had offered discounts of 30% to 50%, more than the 20% now required by law.

Still, Bell Atlantic may not lose. Legg Mason Wood Walker Inc., managing director Michael J. Balhoff says, is selling part of the local market for no cost the company 1% of its revenue in 2001. That's a small price to pay for a ticket to the Internet boom.

By Catherine Yang in Washington



THE PEOPLE OF BRAZIL PRODUCE THE WORLD'S BEST COFFEE

And now

COME OTHER GREAT WAYS TO GET TO WORK IN THE MORNING

In 25 countries around the world, from Australia to Venezuela, Toyota vehicles are being built by the same people who drive them — local people. Here in America, Toyota currently employs more than 23,000 people. In



fact, more than half the Toyota vehicles sold in America are built here, with many parts coming from U.S. suppliers. That's why, to many people, Toyota is more than just a source of local transport, it's a source of local pride.

TOYOTA People Drive Us



SOFTWARE

IT MIGHT NOT BREAK WINDOWS, BUT . . .

Linux, the little jerry-built operating system, is carving a niche

To hear Microsoft Corp. tell it, Linux—a computer operating system created by a Finnish graduate student and polished by programmers in their spare time—is a potential threat to Microsoft's Windows desktop operating system. Linux is proof, Microsoft is arguing in federal district court, that rivals can enter Microsoft's markets—and that the software giant does not exercise monopoly power.

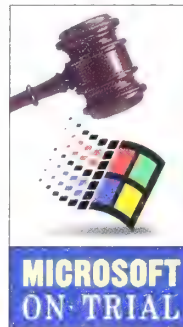
Linux? The freebie operating system that nerds worldwide are using, but few ordinary consumers or major companies will load on their PCs? O.K., conceded Richard L. Schmalensee, Microsoft's first witness under cross-examination, "Linux isn't viable now." But, the dean of MIT's Sloan School of Management added, "in a year or two, the answer could well be different."

"BAT OUT OF HELL." Well, perhaps. Not many people other than Schmalensee, some Microsoft execs, and a small group of Linux aficionados seem to think so. "It's small potatoes," sniffs Chris Le Toq, software consulting director for research firm Dataquest Inc. For Charles Feld, chief information officer for Delta Air Lines Inc., "Linux isn't even on my radar. I'm not sure I could put to-

gether more than a sentence about it."

Indeed, despite efforts by Linux fans, the software remains out of the mainstream—at least on desktop computers where the government asserts that Windows has a monopoly. Linux is most popular as an operating system for server computers used by Internet-access providers, Web sites, and universities. There, "Linux usage is growing like a bat out of hell," says Marc Andreessen, senior vice-president of engineering at Netscape Communications Corp., which is creating versions of its server software packages to run on Linux.

But Linux isn't quite ready for prime time. Developed as a kind of hobby in 1991 by Linus Torvalds, Linux (pronounced LINN-ux) still bears some of the hallmarks of an engineering project. The software is difficult to install and use. No major computer makers ship Linux with desktop PCs, although some will fill orders for it. And most PC makers don't plan on pushing it as an alternative to Windows. "If demand gets high enough, yes, but I haven't seen that yet," says Michael Lambert, head



A THREAT? Linux "just keeps feeding on itself," says founder Torvalds

of Dell Computer Corp.'s enterprise systems group.

Still, Linux is definitely a phenomenon in the server market. International Corp. says Linux server sales, a stunning 212%, to 740,000, in 1997, capturing 17.2% of that market. That compares with a 35.8% share for Microsoft's Windows NT operating system.

Linux has two major advantages. First, its users like the ability to modify the source code—something Microsoft doesn't allow. The price also can't be beat: The software can be downloaded for free, which is why, says Torvalds, the softspoken 29-year-old, Linux' success is inevitable. Thousands of programmers are working on fixes and new ideas for Linux. "This thing just keeps feeding on itself," he says. Companies that want to use it buy it in a package with customized software that sells for about \$1,000 compared with \$800 for basic Windows NT. The top Linux companies—Fedora Software and Caldera Systems—plan to make profits on support and service contracts.

Not surprisingly, Microsoft's rivals have been quick to jump on this new wagon. Oracle Corp. and IBM have created versions of their database products that run on Linux. Lotus Development Corp. is about to issue a Linux version of its Notes collaboration software. IBM is more computers to Linux buffs, and Packard Co. will create Linux servers in the next few months. Nigel Ball, head of HP's Internet connection server unit. And Oracle plans to deliver versions of Oracle Applications

for Linux. "We're making Linux mainstream," says Mark Oracle's senior vice-president of worldwide marketing.

Still, companies that use Linux systems for major corporate applications are skeptical. Linux is "a nice thing," says John Paine, chief technologist for IBM. Young. Linux fans hoped that image. Torvalds' pushing version 2.2, for it to work on servers with

multiple microprocessors, a key requirement for corporations and Web sites.

Should Microsoft be afraid? But, if Linux proponents cannot match their ambitions, someday it will be more than a convenient argument in Microsoft's antitrust defense.

By Steve Hamm, with Ira Spector, New York and Peter Burrows, Mateo, Calif.

It's like a dating service for mutual funds.

Introducing another E*TRADE® Advantage: Power Search, the simple way to find the right mutual fund for you.

Passive or aggressive, domestic or international, you're particular about where you invest your mutual funds — especially in today's markets. Cut through all the confusion and find that special relationship you've been looking for. Here's how to do it: answer the easy questions in E*TRADE's Power Search. Using the criteria you care about most, we'll display the funds which measure up to your high standards. It's fast. Unbiased. Free. Way better than a blind date. Then you can choose from our more than 4,200 funds. No wonder E*TRADE® is rated the #1 online broker.

1-800-ETRADE-1
www.etrade.com
aol keyword: etrade



E*TRADE®

Someday, we'll all invest *this way*®.

Firms offering no-transaction-fee funds receive remuneration from participating mutual fund companies. Fund prospectuses contain more complete information, including management fees and expenses, to be read carefully before investing. E*TRADE® rated #1 online broker by Gomez Advisors' 3rd & 4th quarter reports on Internet brokers, issued 8/12/98 & 11/19/98 respectively. Gomez Advisors is a leading independent authority on online financial services. ©1999 E*TRADE® Securities, Inc. Member NASD, SIPC.

THE INTERNET

IS THE NET A BARGAIN AT ANY PRICE?

So far, premiums for cyber-companies aren't scaring off bidders

It was a veritable feeding frenzy. No fewer than seven big-name suitors had come calling before Excite Inc. agreed on Jan. 19 to be swallowed up by At Home Corp. for a staggering \$7.5 billion or \$120 a share—a 78% premium over its share price the previous trading day. The shoppers included giants Sony, Time Warner, Disney, NBC, and News Corp.—all of which hoped to use the Internet-portal company to give them a firmer footing in cyberspace. Microsoft Corp. and Yahoo! Inc. were in the hunt, too. Excite CEO George Bell says offers were still coming in as he was hammering out his pact with At Home. “I was get-



JERMOLUK: “This accelerates us three to four years”

ting an offer from one company over the weekend that went up every day,” says Bell. “It was very competitive.”

In the end, only At Home could stomach the premium that makes Excite the priciest Internet prize to date. “They all

wanted to buy into the company at higher prices,” says Geoffrey Y. Yang, Excite director and venture capitalist. Explains Yahoo! President and Chief Operating Officer Jeff Mallett: “Up to a certain price, anything makes sense. Beyond this didn’t make sense to us.”

SEE YA LATER. That’s not to say bidders might not be back—and they may have to pay even more if necessary—to speed up their Web strategies. The pace of mergers continues to accelerate, though Net valuations have soared an average of 154% in the past year. In 1998, 247 Internet deals valued at \$10 billion have been inked since July, 1997, up from 167 deals in the previous six months, according to New York-based research firm CommScan.

A Flurry of Online Deals

	JAN. 1 - JUNE 30 1998	JULY 1 - PRESENT
TOTAL # OF DEALS	167	247
TOTAL VALUE OF DEALS	\$4.14 BILLION	\$16.6 BILLION

DATA: COMMSCAN LLC

Analysts, bankers, and high-tech executives expect merger mania to continue. Microsoft, Yahoo!, NBC, and other com giants such as AT&T are active buyers. Why would they pay high prices for fledgling upstarts, many of which don’t turn a profit? “Companies that want to be major players

THE NET BUBBLE IS BOTHERING BROKERS

Driven by new deals and investor frenzy, Internet stocks continue their rise. Also on the upswing is the number of alarms about the swelling Internet-stock bubble. On Jan. 19, Charles Schwab & Co. more than doubled, to 75, the number of highly volatile stocks it warns investors about. The firm alerts would-be buyers that they could see rapid price changes on the stocks, and it has boosted margin requirements on those stocks from 35% to 50%.

On Jan. 22, Schwab planned to post on its Web site a letter from Chief Executive Charles Schwab that outlines his concerns about the stocks and warns that clients will not be able to trade online in certain particularly fast-moving stocks. Schwab also offers clients a brochure, “Guide to Understanding Fast Markets.”

Other brokers are even more leery. Ameritrade Inc. now refuses to take pre-opening orders on initial public offerings unless investors include price limits. And Merrill Lynch & Co. says it urges brokers to caution clients to set price limits, rather than placing market orders, when they bid on hot IPOs. Merrill says that when brokers issued warnings of possible risks to clients seeking shares in the recent IPO of theglobe.com, about a third of them dropped their orders or used limit pricing.

POT OF GOLD. In mid-January, market maker Bernard L. Madoff Investment Securities actually stopped making markets in four of the six Net stocks it handled: Amazon, Infoseek, Egghead, and Yahoo! Says Chairman Bernard Madoff: “We wanted to send out a message that we didn’t want to take part in

this risky investment strategy.”

Madoff is a member of a National Association of Securities Dealers committee that is debating whether to come up with measures to deal with the gyrations caused by individual investors piling into volatile Net stocks. The group, with members from Morgan Stanley Dean Witter, Instinet, and Merrill, has considered curbing as halts in trading, but has rejected them as unwieldy, Madoff says. More likely, other members say, are stock rules requiring online firms to educate clients about market risks. The committee will meet again Jan. 25.

Investors may be seeing a pot of gold at the end of every Net IPO. But the firms that would be left dealing in the shares if the bubble bursts see things a little differently.

By Heather Green in New York
with Mike McNamee in Washington

Who's #8 on this year's list of FORTUNE's 100 Best Companies to Work for in America?

At Deloitte & Touche, we're honored to be making a second appearance on FORTUNE magazine's list of the 100 Best Companies to Work for in America. It means we're doing a lot of things right. For all our great people. And for all the great clients we serve.

the answer is

**Deloitte &
Touche**



©1999 Deloitte & Touche LLP and Deloitte Consulting LLC. Deloitte & Touche refers to Deloitte & Touche LLP, Deloitte Consulting LLC and related entities.

www.us.deloitte.com

"I'LL NEED TO SEE
SOME I.D."

AS/400e = Web Security

Bulletproof security is built right into the AS/400e server:

Virus resistance. User IDs. Add firewalls and data encryption for a level of e-business security that's hard to match. And even harder to crack.

See for yourself. The password is: www.as400.ibm.com/secure4



 e-business tools



IBM

business have no choice but to buy or to merge," says Internet analyst Barry Parr at International Data Corp. At Home Chairman Thomas Jermoluk says of the Excite deal: "This accelerates us three to four years."

Industry sources say Internet portal Lycos Inc., with 5 million registered users, will be among the next to go. "We're not in a hurry," says Jan Horsfall, Lycos' vice-president for marketing. "We continue to do due diligence and look for a partner." Pointcast Inc., a former Net highflier, is also expected to be taken out soon by a group of regional Bell companies intent on using the Web service to launch a portal of their own, according to industry sources. Pointcast declines comment.

Bankers and high-tech execs figure that companies such as Geocities, Sportsline USA, theglobe.com, and Marketwatch.com could become takeover bait. These players have established Web brands, but they're too small to survive on their own. "Internet service providers are eyeing the electronic-commerce revenue stream," says Ford Cavallari, vice-president for the Internet strategy practice at Renaissance Worldwide, a Boston management consultant. "The portals have the customers. Neither of them alone has unlocked E-commerce revenues."

AVALANCHE. Further out, analysts and bankers predict that both Excite and Yahoo! could cut deals with major media companies such as Time Warner or News Corp. to attract the avalanche of new users expected to hit the Web. "We believe they need media partners," says IDC's Parr.

News Corp. Chairman Rupert Murdoch has said the prices are too rich for his blood. But Web deals made by other media players that looked pricey just a few months ago now look like bargains. In late 1997, CBS Corp. provided \$30 million worth of promotions in exchange for 50% of Marketwatch.com. Since that company went public on Jan. 15—and the stock rose 474% on its first day of trading—CBS's stake has risen to roughly \$400 million. Walt Disney Co.'s 43% stake in Infoseek Corp. has doubled from \$965 million to \$1.96 billion since November.

Excite's Bell says companies that are scared off by today's valuations are shortsighted. "The premium is in the future," says Bell. "If we do even reasonably well at the things we have in front of us, this deal will look cheap." That depends on who's looking.

By Linda Himmelstein in San Mateo, Calif., with Richard Siklos in New York

COMMENTARY

By Aaron Bernstein

WHY THE LAW SHOULD ADOPT MORE FAMILY LEAVE

Since Congress passed the Family & Medical Leave Act of 1993, some 20 million workers of both sexes have taken time off for the birth of a baby or to care for an ill family member. The massive disruptions critics predicted never came to pass. In fact, the economy has boomed, and most employers report few problems accommodating these leaves.

Still, business lobbyists were revving up opposition to expanding the law even before President Clinton proposed it in his Jan. 19 State of the Union Address. Admittedly,

the new measure, which would require companies with as few as 25 employees to grant family leave, might cause more difficulties for smaller companies. But given the experience of those already under the Act—the cutoff is now 50 workers—it's time to follow the lead of several states and broaden the law.

In Oregon, for example, state law has covered companies with 25 or more workers since the mid-'80s. "Most small companies here haven't had a problem," says Betsy Earls, a lobbyist for state employer group Associated Oregon Industries. A dozen other states have narrower leave laws that apply to small employers, most for maternity disability.

NO COMPLAINTS. Even on the federal level, the law already applies to 58,000 worksites with fewer than 50 employees that are part of larger companies based nearby. Some 75% of these places had little or no increase in administrative costs to comply with the federal law, according to a 1996 sur-



GREEN (TOP) AND A FAMILY-LEAVE BENEFICIARY: When necessary, "everyone pitches in"

vey by the bipartisan Commission on Family & Medical Leave. Of course, some might have more flexibility, like the ability to transfer workers among worksites, than independent small companies. Even so, the percentage with no complaints cannot be ignored.

Small employers are already inclined to give some leave benefits—because it's good business. Take Flora Green, who opened her own florist shop in Kendall, Fla., in 1975. From the start, she offered family leave. "We're a great good team, and everyone pitches in when someone takes

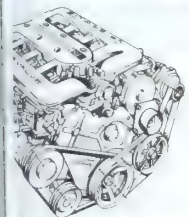
off," says Green. Last year, she sold her 40-employee firm to a national chain. While some things changed at Foliage by Flora, family leave policy was not one of them.

Green is not alone. Plenty of other small companies offer some family leave, if not the full 12 weeks the Feds want. In fact, 95% of private sector companies with 25 to 49 employees offer some maternity leave, according to a 1997 study by the Families & Work Institute in New York.

So, why expand the law? First, making leaves mandatory deals with the employers who refuse to be flexible. More important, someday unemployment is bound to rise. The voluntary extension of family leave has come amidst the tightest labor markets in decades. When they loosen, many companies—particularly small ones—may not feel so generous.

Bernstein covers workplace issues from Washington.

**Sometimes you forget the milk.
Sometimes you forget the bread.
Sometimes you forget the store altogether.**



With every corner you're lost in the stability of the Concorde LXi's cab-forward architecture and low-speed traction control, not to mention the sound of its 225 hp V6. For more information, call 1.800.CHRYSLER or visit www.chryslercars.com.

The new 1999 Chrysler Concorde. LX starting at \$22,115. LXi as shown, \$25,935*.



CHRYSLER CONCORDE

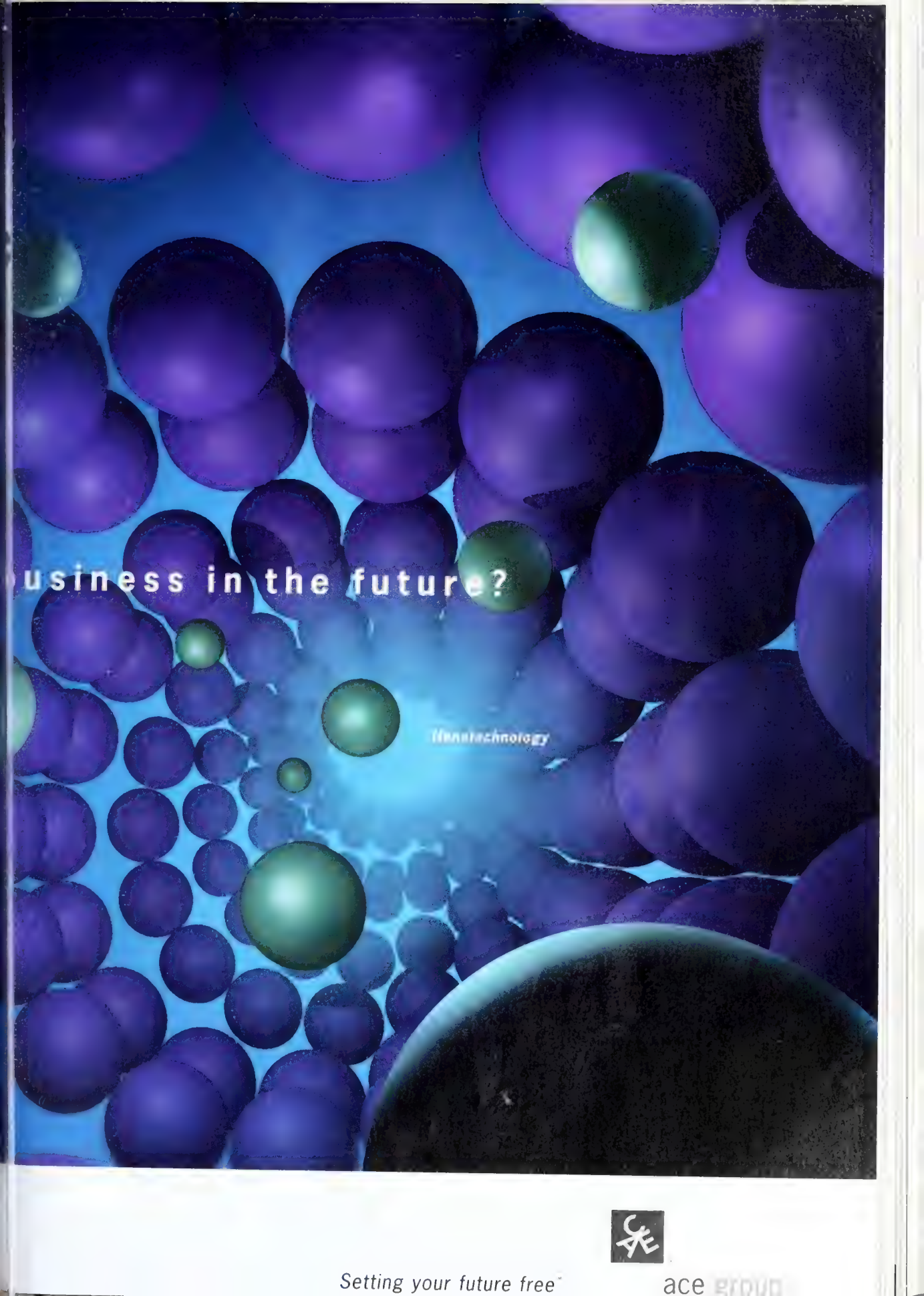
*include destination, exclude tax



Are you prepared?

Say you're in advanced technology, and suddenly a new kind of insurance company comes along that can anticipate potential risks and help to secure your earnings for the next decade, leaving you free to focus on the next miracle. What could you dream up?

The ACE Group of Insurance & Reinsurance Companies:
ACE Bermuda • Tempest Re • ACE USA • ACE Global Markets • ACE Europe



business in the future?

nanotechnology



Setting your future free™

ace GROUP

Your chips come from a company

protected by us.

Your soft drink

comes from a company

protected by us.

Your TV comes from a company

protected by us.

[And yes, we're working on the slipper

Frito-Lay. Pepsi. Philips.

Today, more of the world's leading companies demand ADT security solutions than any other. Perhaps it's our 125 years of experience. Or our unique design approach we call Security Architecture.™ Or our commitment to world class monitoring and customer service. Whatever the reason, you'll find ADT is exactly what your world calls for. To hear more, use your phone (probably from another company protected by us) to call us at 561-988-3896. And ask for our President, Mike Snyder.

SECURITY THE WORLD DEMANDS.™



MARKETING

BUILD A BETTER MOUSETRAP' NO CLAPTRAP

Companies can hike prices—if they reinvent their products

When Gillette Co. unveiled Mach3, the world's first triple-blade razor, it took a bold gamble. While de-er pressure was making it impos-er most companies to charge high-or new products, Mach3 cartridges sell for around \$1.60 each, a 50% m over Gillette's then-priciest he SensorExcel. Skeptics predict-er personal-care giant would soon ed to cut that price. But six after Mach3 hit U.S. stores, the holding and Mach3 has become .1 blade and razor. Gillette had f the U.S. market in December, est share since 1962.

Companies would kill for a prod-er this kind of pricing power. In a ey by the Financial Executives e and Duke University, chief fi-officers from all industries said pect price hikes to average just 1999. Manufacturers say they'll a gain of only 0.2%. And some U.S. companies, in industries eakfast cereal to autos, will have prices, figures Gary Stibel, a and principal of the New Eng-nsulting Group.

BIG SHOE PADS. But an elite bucking the trend by introduc-w products that provide bene-ple think are worth paying for," lette CEO Alfred M. Zeien. Col-molive Co., for example, priced Total 25% above mainstream because Total is the first paste d by the Food & Drug Admin-to help prevent gingivitis. After Total is the No. 1 brand, with a 0% share. Dr. Scholl's, a unit of g-Plough Corp., has taken the oe-insert pad and used biome-to transform it into a remedy nd back pain. The new product, p, sells for as much as \$14 per vice as much as older inserts—e 1997, it has become the No. 1 ith 29% of the market.

s the secret to pricing power? ters, a commitment to inno-Gillette spent nearly \$1 bil-the development and initial ng of Mach3. Similarly, a of breakthroughs allows rp. to command a premium

even for TVs, where prices have been falling. Thanks in part to the Wega, the world's first conventional flat-screen TV, Sony's TV sales rocketed 24% in the first half of its fiscal 1998.

Of course, pricing power is often fleet-ing. Intel Corp., for one, has had to cut prices of low-end chips as rivals have brought out similar products. But Intel remains "the only game in town" for high-end chips, says Ashok Ku-mar, senior research analyst for Piper Jaffray Inc. Intel is charg-ing \$3,692 for its latest Pen-tium II Xeon processor—or \$3,271 above the production cost, according to MicroDesign Resources. "It's a license to print

Where the Pricing Power Is

COLGATE TOTAL TOOTHPASTE

25% higher than conventional toothpaste, now No. 1 brand

GILLETTE'S MACH3 RAZOR

\$1.60 per cartridge, 50% more than SensorExcel, now top seller

MAYTAG'S NEPTUNE WASHER

\$1,100, double the average washer, now No. 2

Pricey toothbrushes are appealing to aging baby boomers who want to enter old age with their own choppers

money," says Kumar.

It also helps to aim products at the af-fluent. They "are willing to pay a lot more to save time or obtain other signif-icant benefits," says Christopher Hoyt, a marketing consultant in Stamford, Conn. Maytag Corp.'s environment-friend-ly Neptune washer is a hit among well-off consumers, even though at \$1,100, it costs twice as much as conventional washers. Over the course of a year, it uses \$100 less electricity than other washers and saves 7,000 gallons of wa-ter—as much as a person drinks in a lifetime.

BLITZKRIEG. Even the humble tooth-brush has undergone a price-boosting metamorphosis— thanks to aging baby boomers who want to keep their choppers. Gillette's Oral-B Laborato-ries is betting that it can charge \$5—50% more than current top-line rivals—for its new CrossAction brush, due in February. Oral-B claims its unique design will remove 25% more plaque than today's best-sell-ing brush.

The pricing elite also back their products with lavish ad spending. Gillette is sinking \$300 million into mar-keting Mach3 in its first year. Ian Cook, president of Colgate North America, boasts that an "unprecedented" blitzkrieg on dentist's offices made Total "the toothpaste most recommended by dentists and hygienists" in its first four months.

Inevitably, some pricing power champs lose muscle. "Three years ago, Nike was a controlling factor," says Chet James, owner of Super Jock 'n Jill, a Seattle running-shoe store. But thanks to a style shift to brown shoes, a plunge in Asian demand, and Michael Jordan's retirement, "right now, it's not pricing power but buying power" that's at the forefront. In autos, a global ca-pacity glut has meant that "prices have actually gone down," says Daimler-Chrysler Co-Chairman Robert J. Eaton.

The message seems clear. While com-peting on price can work, the success of the pricing elite suggests there may be a better way. "Most companies don't take a bold enough position to invest in the development of superior prod-ucts that can command a premium price," argues Jeffrey M. Hill, managing director of Meridian Consulting Group. Given the potential rewards, perhaps they should.

By William C. Symonds in Boston, with bureau reports



EDITED BY KELLEY HOLLAND

THE AUTO DERBY ISN'T OVER YET

DAIMLERCHRYSLERNISSAN? Renault Nissan? Ford Nissan? The rumors continue to swirl. Japan's No. 2 auto maker, facing a 12-year low in vehicle sales and a profit crunch from a stronger yen, says it is willing to consider investment proposals from foreign auto makers. Selling Nissan Diesel to Daimler-Chrysler, for example, would help Nissan pay some of its billions in debt. Selling a piece of Nissan Motor to the transatlantic giant would do the same, and make Nissan part of a colossus that would rival Ford Motor. Joining Renault would bring Nissan up to the ranks of Toyota and Volkswagen. If Nissan does a

deal, other Japanese makers might follow. Mitsubishi Motors President Katsuhiko Kawasoe has said he is discussing deals with potential foreign partners.

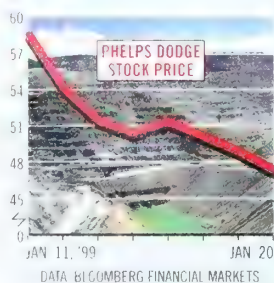
MICKEY D., MEET LARRY Z.

MCDONALD'S IS TRYING A NEW recipe in the U.S. On Jan. 19, it promoted Larry Zwain, a regional manager for McDonald's in the Northeast, to head of U.S. marketing. Zwain personifies a change being made by new CEO Jack Greenberg: Unlike many top company execs, he is not homegrown. He was previously CEO of Boston Market and president of PepsiCo's restaurant division. McDonald's has suffered through such debacles as McPizza and the Arch Deluxe in the '90s. But recently, it has cut costs and stopped sales declines.

CLOSING BELL

COPPER BOTTOM

Like other copper producers, Phelps Dodge has been hit by low prices: Asia's woes have cut demand even as production rises. But prices were just one reason for Phelps' \$41.8 million fourth-quarter loss. Weak sales to manufacturers and restructuring costs hurt. Phelps' stock fell 6.2%, to 47%, in the three days after the Jan. 15 news. It figures to be "near breakeven" in '99, but ABN Amro's Vahid Fathi thinks it could lose money even if copper prices stabilize, thanks to weakness in its noncopper businesses.



A FUTURES EXEC CALLS IT QUILTS

BROOKSLEY BORN IS THROWING in the towel. The combative chairperson of the Commodity Futures Trading Commission told the White House on Jan. 19 that she does not want to be renominated when her term expires in April. Born had crossed swords with Treasury Secretary Robert Rubin and Securities & Exchange Commission Chairman Arthur Levitt Jr. when she sought to regulate over-the-counter derivatives such as interest-rate swaps. But Levitt and Rubin don't have to worry about who Born's successor will be. At the top of the list of likely replacements are Annette Nazareth, special counsel to Levitt, and Julie Williams, chief counsel of the Comptroller of the Currency, whose boss is Rubin.

HEADLINER: EDWARD WHITACRE

'YOU GOTTA KEEP MOVING'

Size means everything in telecom these days. And Edward Whitacre Jr. does not plan to be a small-fry. On Jan. 20, the chief executive of SBC Communications inked a \$1.7 billion deal to buy Comcast's cellular unit. The acquisition, expected to be completed in the third quarter, helps Whitacre keep pace in the frenetic wireless phone market. Just days earlier, on Jan. 18, Vodafone, the largest British wireless company, agreed to buy AirTouch Communications for \$59.7 billion to create the world's largest wireless phone company.

Already, Whitacre's wire-

less operation is the nation's third biggest. And once SBC closes its proposed merger with local telco Ameritech, it could move up in the rankings. But the operation will still have holes, including in the Northeast, where the Comcast network will help. The increase in scale will also allow SBC to negotiate lower roaming fees for its customers. If the Comcast deal still satisfies Whitacre's desire to grow, So, SBC could be among dealmakers in the news. "You gotta keep moving or someone will gain on you," he says.

By Roger Cronin



DANCING IN THE STREET

CHRISTMAS CAME LATE FOR some in financial services, but finding good news at all surprised many on Wall Street. J.P. Morgan, Bear Stearns, Lehman Brothers, and PaineWebber all delivered earnings way above consensus forecasts, according to first call. That was good news to the banks and brokerages that watched glumly as analysts chopped away at earnings predictions for the quarter. At Lehman, estimates began at \$1.36 per share for the quarter before dropping at one point to 21¢, First Call says. Lehman delivered 51¢ for the quarter.

'WHAT AM I CYBERBID FOR ...'

GOING, GOING, GONE.COM. Sotheby's is holding auctions online. Next summer, noted

collector Barry Hahn's baseball memorabilia will be put up for bid. Sotheby's hopes that the Web will attract folks who might be intimidated by in-person bidding. The Web may also help Sotheby's unload its most prized items: 80% of the items the auctioneer offers are valued at less than \$5,000. But Susan Scott, the new CEO of the Web site sothebys.com, insists that Sotheby's online offerings will not be "hand-me-downs."

ET CETERA ...

- Enron is postponing plans to sell power to residential customers.
- New York Life decides to remain a mutual insurance company, unlike rivals going public.
- DirecTV is close to buying PrimeStar, a subscriber-based satellite TV service, sources close to the deal say.
- Chancellor Media has hired BT Alex. Brown to explore a possible sale or spin-off.



celeron™

PROCESSOR

Look who's in business now.

Great performance at an exceptional value.

Looking for a smart buy? Here's today's top pick: the Intel® Celeron™ processor. It gives you quick and responsive performance for today's business applications. At a great value. And because it's from Intel, you get all the compatibility and reliability you've come to expect. To learn more, contact your PC manufacturer, see your local reseller, or visit us on the Web. www.intel.com/Celeron

intel

The Computer Inside.™





DAIMLERCHRYSLER

street smarts.

 Styling that captures the imagination. Engineering that defies convention.  DaimlerChrysler has found the most direct route to success lies upon the road less traveled. And that road is getting shorter every day.  Because Rockwell automation is helping DaimlerChrysler streamline development of innovative vehicles to save months of time and millions of dollars.  Just as Rockwell solutions help all kinds of other businesses run even smarter.  Whether it's the state-of-the-art call center technology that lets a major airline handle 60 million customer calls a year.  The avionics that automatically monitor the systems of an intercontinental jet to help its crew operate more efficiently.  Or the automation systems that help a catalog retailer ship nearly half a million packages a day.  Intelligent answers for companies in the fast lane. Because whatever your business, the bottom line is this.  You succeed. We succeed.™

Rockwell

Electronic Controls and Communications
www.rockwell.com

BY DOUGLAS HARBRECHT

TERM LIMITS? DID ANYBODY SAY TERM LIMITS?

There was a poster boy for the term-limits movement, George R. Nethercutt Jr. (R-Wash.). In 1994, running on a pledge to serve no more than three terms in Congress, Nethercutt ousted House Speaker Thomas S. Foley from the Washington State seat he had held for more than 30 years.

But much to the horror of term-limit activists, three-term Nethercutt won't commit to leaving Congress in 2000. He's alone. More and more GOP revolutionaries—having seen the fruits of incumbency—are rethinking commitments to a hike in two years. The list includes Representatives James M. Inhofe (R-Okla.) and Tillie K. Fowler (R-Iowa), newly elected chair and vice-chair of the House GOP conference.

Republicans playing with fire? While they may give a pass to some vacillators, the argument that seniority will increase their clout, Republicans are opening themselves to charges of rank hypocrisy. Making public pledges, they only deepen their cynicism about government and further jeopardize the House GOP majority in 2000.

HYPOCRITES. At the least, reneging is sure to alienate conservative populists and independents whose support was crucial to the GOP takeover of Congress in '94. They're already firing warning shots. "Hypocrites should not count on the votes of people of principle," fumes Reform Party chairman Russell J. Verney. Term limits "are a parasite to conservatives," says Tom Katina, executive director of the American Conservative Union, warning that the GOP will come back to haunt Republicans who break their pledges. The breach could be most telling in the South, where term limits are commonplace, says Cornell University political scientist Theodore J. Lowi.

But sure, Republicans aren't the only ones doing the two-step. Representative Martin T. Meehan (D-

Mass.) recently called his decision to limit himself to eight terms "a mistake." But the concept of term limits is largely a GOP notion. It originated with grassroots Republicans in the early '90s, fueled by disgust with 40 years of clubby Democratic rule of Capitol Hill. The image of citizen-legislators was such a potent political draw that Newt Gingrich made passage of a constitutional amendment limiting lawmakers' tenure a key plank in the 1994 Contract With America. Currently, 45 Representatives and 13 Senators, most of them Republicans, have said they will leave after serving a specified number of terms.

SENIORITY SYSTEM. If they don't, Nethercutt & Co. can count on activist groups to hound them on the 2000 campaign trail. "We'll keep the pressure on," vows Paul Jacob, executive director of U.S. Term Limits. "The amount of public anger will surprise them." The waffling has already reenergized the term-limits movement, which had lost some momentum following a wave of departures from Congress.

Perhaps it was inevitable that some members of Congress would rethink their pledges once they got to Washington. It takes time to master the intricacies of Hill rules and to amass the respect and influence necessary to push through major reforms. "The reality is that the House and Senate work through a seniority system," says Meehan.

Nowhere on Capitol Hill is that truer than in committee cloakrooms. Despite House GOP pledges in '95 to force all committee chieftains to relinquish their chairs in 2001, many are quietly lobbying to hold on to their jobs. But if enough lawmakers repudiate term-limit vows, riling the voters who helped send them to Washington, Republicans may not have to worry about heading any committees at all.

By Amy Borrus in Washington



NETHERCUTT: *Don't read his lips*

CAPITAL WRAPUP

KNIGHT SEES DAYLIGHT

On Jan. 14, Attorney General Janet Reno rejected a congressional committee's request that she open a preliminary investigation of Clinton '96 campaign chair Peter S. Knight. That follows hard on the heels of a decision late last year not to appoint an independent counsel to investigate Vice-President Al Gore's fundraising efforts during the 1996 campaign. The House Commerce Committee announced in December to review allegations that Knight committed per-

jury when he testified to the panel that a \$1 million fee he got wasn't an illegal contingency fee. The panel also alleged that Knight helped Tennessee developer Franklin L. Haney win favorable terms on a government lease in exchange for campaign donations.

But Reno declined to open a probe. She said a Justice campaign-finance task force had concluded that Knight's fee wasn't contingent on Haney getting the government lease and therefore wasn't illegal. So Knight couldn't have lied under oath about the fee.

Her decision displeased House Republicans, who saw the Knight case as

a way finally to bring President Clinton's '96 Presidential campaign under an independent counsel's scrutiny. At least Reno is consistent. She has refused to name independent counsels in campaign-finance cases involving the President, the Vice-President, and their campaign manager.

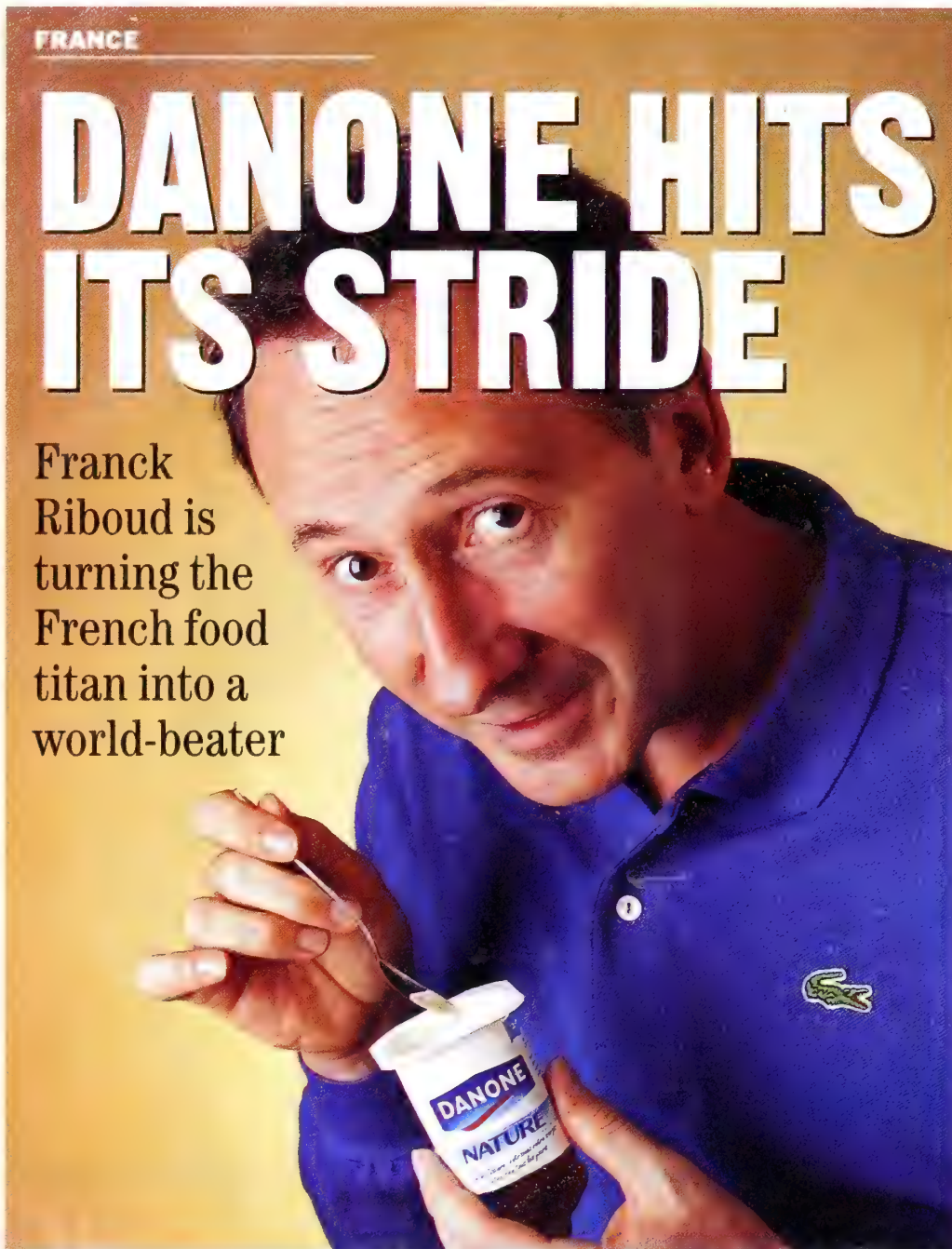
So far, Haney and 14 other individuals have been indicted for violating election laws. The task force, says a Justice source, continues its probe. Knight, who declined to comment, now is free to play a major role in Gore's 2000 Presidential bid.

By Paula Dwyer

FRANCE

DANONE HITS ITS STRIDE

Franck Riboud is turning the French food titan into a world-beater



In a 39-year-old photo of a Riboud family gathering, four-year-old Franck is screaming in protest. He has just discovered that the chocolate box in which his hand is fishing is empty. As the youngest son in a family of overachievers, Riboud "was always last to get his hand in the pie," recalls Barbara Chase Riboud, Franck's aunt. Few family members were aware of Franck's

secret determination to equal the best among them.

Now chief executive of French food giant Danone Group, Riboud no longer comes in last. The son of legendary industrialist Antoine Riboud, Franck did not start out on the fast track. When he got the CEO job in May, 1996, the company's shares sank. His earlier championships in skiing and windsurfing gave him a reputation as a lightweight, even though he later logged 15 years with

Danone. Many assume Antoine had maneuvered his youngest son into the top slot. And indeed, he feared he couldn't live up to his dad's impressive legacy. "There isn't anything worse than that," Riboud says now, shuddering at the memory. "I had no legitimacy."

EARLY LAPS. Riboud proved the skeptics wrong. He has refocused the sprawling, \$15.8-billion company on its core products and reversed Danone's profit slide. He has successfully pushed into new markets across the world despite increasing volatility in emerging economies. His performance has rival guard and investor plauding. Danone's sales have nearly doubled to \$193 billion since he took over.

But Riboud is not without early laps of his own. Danone still depends on Europe for 76% of its sales, with roughly half coming from France. The challenge is to transform the world's No. 7 food company from a European champion into a front-runner with a slice of emerging markets in Asia and Latin America. To do that, Riboud must battle brand giants such as Nestlé, Nabisco, and Coca-Cola without the home-field advantage it enjoys in Europe. "We need to be truly worldwide companies. That's not the case," admits Chief Financial

Officer Christian Laubie.

Riboud has been racing to close the gap with the global giants. Over the past two years, he has sold off an estimated \$1.2 billion in noncore assets and made about the same amount worth of acquisitions, primarily in Latin America, Eastern Europe, and the U.S. He has narrowed Danone's portfolio to three areas where it dominates in global markets: dairy products, bottled water, and cooking



Investors doubted Riboud could follow his father's

rs. Analysts say
l is likely to
his target of
ing revenue out-
urope to 33% of
sales by 2000,
% in 1992 when
charge of inter-
development.
oud can't afford
ken his pace. The
e brand ranks
the global top
d the company
other premium
such as Evian
l water and
bourg beer. But
ld's largest food
are all trying to
themselves



CULTURE VULTURES: Danone employees sample their yogurt

gional stars with diverse prod-
o global leaders in a few busi-
And with Western markets
saturated, the battle for growth
n emerging markets, where such
ies as Nestlé and Unilever have
antial lead over Danone.

ud's career at Danone has
d him well for the global food
s a sales manager in the early
e walked the aisles of French
arkets that sold Danone yogurt,
sure shelf placement was fa-
After taking charge of the
usiness in 1990, he helped en-
the \$2.5 billion takeover of
's European cookie and cracker
ns in 1992. As head of interna-
velopment from 1992 to 1996,
e than tripled sales outside
Europe, to \$2.7 billion. And
U.S., he raised advertising bud-
d launched Dannon Water, cur-
No. 1 in American supermarket
bottled water.

Riboud needs to boost margins
p growth going. Take dairy
, which power 42% of Danone's
es. Danone ranks No. 1 world-
with a 15% market share. But
those sales come from Europe,
itizens eat more packaged yo-
n people anywhere else in the
though untapped markets offer
opportunities, Danone has a
arketing job ahead in most of
Latin America, where yogurt
rt of the traditional diet.

n mineral water, Danone faces
competition. The French group
s. 2 worldwide after Nestlé and
owerful brands such as Evian,
und Badoit. Riboud is acquir-
water companies around the
le recently snapped up water

companies Aqua in Indonesia, Health in
China, and Aquapenn in the U.S. And
to further his assault on the American
market, Riboud priced Dannon Water
at 89¢ for a 1.5-liter bottle, vs. \$1.89 for
a same size bottle of premium-brand
Evian.

But Coca-Cola Corp. and PepsiCo
Inc. have their eye on the market for
bottled water, too. In December, 1995,
Pepsi introduced a "purified water"—fil-

RIBOUD'S GAME PLAN

DIVERSIFICATION

Reduce Danone's dependence on
Europe, which accounts for 76% of
sales. Derive 33% of sales outside
the Continent by 2000.

EMERGING MARKETS

Push further into Latin America and
Asia, where companies can be
bought cheaply. Overcome local
dietary biases with marketing.

PROFITABILITY

Boost anemic margins of cookie
and cracker business. Improve
weak profits of dairy products
in the U.S.

tered tap water—called Aquafina that is
now the No. 1 seller in U.S. conve-
nience stores and gas stations. Industry
sources say Coke aims to launch a pu-
rified water injected with minerals,
called Dasani, in May or June. Low-
cost filtered tap water will allow Coke
and Pepsi to escalate price battles. Al-
ready, the Dannon Water launch in the
U.S. led to losses of \$17.8 million for
Danone in 1998, putting pressure on
the group's water margins.

To offset the difficul-
ty of building brand
presence in the mature
markets, Riboud is rais-
ing Danone's profile in
Asia. Danone Asia man-
ager Simon Isreal has
spent more than \$500
million on acquisitions
over the past 18
months and more than
doubled the company's
business in the region,
to roughly \$1.7 billion,
while raising margins
by one percentage point
a year. Financial-mar-
ket turmoil has only
whetted Riboud's ap-
petite for Asian compa-
nies. "It's the chance of

a lifetime. I won't change my strate-
gy," he insists.

Despite the growing pains, Morgan
Stanley Dean Witter analyst Sylvain
Massot forecasts that Danone's overall
profits will jump by 8% in 1999 and as
much as 12.7% in 2000. And even under
pressure, Riboud maintains a laid-back
attitude. He strolls through headquarters
in a pullover, and addresses most people
with the familiar "tu." In the streets of
Paris, he prefers a motor scooter to a
chauffeured limousine, chooses casual
wear over elegant suits, and favors Mc-
Donald's over temples of cuisine.

OVERACHIEVERS. Riboud's individualism
was bred in the bone. Three genera-
tions of his Lyons-born family are
packed with extraordinary people. Fa-
ther Antoine turned a French glass-
maker into the Danone Group empire.
Uncle Marc Riboud is an internation-
ally renowned photographer whose work
in China, Europe, the U.S., and Africa
has won numerous prizes. Another un-
cle, Jean, fought in the French Resis-
tance during World War II, spent two
years in Buchenwald, and became chair-
man of global oil-services giant Schlum-
berger Ltd.

Family members downplay their own
and one another's talents. Marc was
stunned to see his nephew Franck mak-
ing headlines in the U.S. business press
last year. "I said to myself, 'Who does
this kid think he is?' Then I read the
story and I thought, 'He has really ac-
complished something.'" Franck Riboud
has a lot to live up to. But if he can
keep up the momentum at
Danone, he will have proved
that the youngest of a famous
family need not come in last.

By Gail Edmondson in
Paris, with bureau reports

esive act. He has proved the naysayers wrong





JAPAN

THIS ISN'T YOUR SIMPLE FLAT TIRE

Toyota's Okuda may leave behind big problems

He has won a reputation as a blunt talker—a no-nonsense executive who would push his company to new triumphs. But at a hastily called news conference on Jan. 11, Toyota President Hiroshi Okuda was about as opaque as he could be in explaining why he agreed to run Nikkeiren, a management organization that studies labor issues. Okuda said he wanted to help revolutionize the workplace. Yet immediately rumors started that Okuda would soon quit as president of Toyota Motor Corp. to escape growing friction with the founding Toyoda family.

Since then, neither Toyota nor Okuda has come up with a clear explanation of what is going on. The mystery has agitated Japan's auto industry just when it is bracing for a possible takeover of Nissan Motor Co. by Renault or DaimlerChrysler. It's true that Okuda has had setbacks, especially in Japan, where the company has not recaptured its tra-

IS THIS GOOD-BYE? Okuda may have clashed with Toyoda family members

ditional 40% share. But most employees expected Okuda, 66, to stay for two more years. Most don't want to see him go, since he was pushing the company to reinvent itself. Instead, Toyota may be headed for a turbulent transition just when Japan's car makers launch a major restructuring.

There is a possibility Okuda will hang around, even though he is expected to step down as president. The board may create a holding company, which would make it easier to restructure Toyota's far-flung businesses. Some speculate that Okuda could reappear as chairman of Toyota Motor or president of the holding company. But Toyota has not confirmed that speculation. It won't even say if Okuda is going to keep or quit his current job. "It's very confusing," says Koji Endo, automotive analyst at Schroders Japan Ltd. "No one can tell what is the reality."

One thing is for sure: No one can think of a replacement who is as driven as Okuda. Yet if Okuda quits, Toyota will need a replacement to run the company day to day. Most employees are rooting for soft-spoken Executive Vice-President Fujio Cho, 61, who directs corporate planning. Cho exudes a fatherly charm and is known for delegating responsibility, and making people feel like equals. One employee tells a story about how some Toyota men were touring a factory in Tianjin, China. Most of them brushed by a security

guard to the plant, but Cho courted thought to tip his hat to the man who laid the groundwork for Toyota's tucky plant and later became a president at Toyota Motor Manufacturing there in 1987. He was one of the first officials to admit to Toyota's problems developing cars that young people like.

RUNNER-UP. The only other executive-president mentioned so far as Okuda's successor is Iwao Okijima, 60, who handles finance and accounting. He seems to lag Cho in the race. The usual theory is that Cho will take over for two years, then hand over the reins to a younger executive—possibly Toyoda, 42, a member of the family now stationed at NUMMI, Toyota's joint venture with General Motors in California. Another Toyota executive running is Shuhei Toyoda, 51, chairman of the new Vitz company known as the Yaris in Europe.

The other options after Cho are Shigeaki Saito, 58, a senior managing director, and managing director Kazuo Watanabe, 56. Saito is the son of Toyota Chairman Shoichi Saito and has developed several generations of Toyota executives. Watanabe has worn many hats, working in corporate planning, administration, and production control. He is seen as a younger version of Okuda, not a motorhead, but more of a pragmatist with a broader view of where Toyota should go.

A big factor in this runoff is the Okuda family. After a stint running Daihatsu, the top industry organization, Chairman Shoichiro Toyoda, 73, has been far more active in Toyota's day-to-day

operations than his father. Rumors are swirling that Okuda is in conflict with Honorary Chairman Eiji Toyoda, 85, who has everything from financial aid to corporate strategy linked to Toyota. It is a growing concern that the family is becoming more pliable. If so, the biggest threat to the company's future is its own tendencies—its conservatism, its inability to move aggressively to resurface. If Okuda he will be leaving half done. That's the situation for the company.

By Emily T. ... in Tokyo



LIKELY HEIR Cho is the favorite among employees to fill Okuda's shoes

A Fund That's Overcome Peer Pressure

AMERICAN CENTURY INCOME & GROWTH

MORNINGSTAR RATINGS



Fund rated as of December 31, 1998, for the overall and 3-year period among 2,802 domestic stock funds and for the 5-year period among 1,702 domestic stock funds.

American Century's Income & Growth Fund has consistently beaten its peers, year after year. It's earned Morningstar's highest rating, ranking in the top ten percent of domestic stock funds for risk-adjusted

performance. While past performance doesn't guarantee future results, this fund has ranked near the top of its class. To find out more, call American Century at 1-800-345-2021 and ask for a free prospectus.

Please ask for a prospectus with more complete information, including charges and expenses. Be sure to read it carefully before you invest. Morningstar proprietary ratings reflect risk-adjusted performance for Investor Class Shares as of 12/31/98. These ratings may change monthly. Ratings are calculated from the fund's three-, five- and ten-year (when available) average annual total returns in excess of 90-day Treasury bill returns, with appropriate fee adjustments and a risk factor reflecting fund performance below 90-day Treasury bill returns. The top ten percent of funds in an investment category receive five stars. Funds Distributor, Inc. ©1999 American Century Services Corporation BWK348-11D



AMERICAN
CENTURY

For Hoechst, Life Sciences means focusing on the fields of health and nutrition where biotechnology holds the key to innovation. Hoechst Marion Roussel, our pharmaceutical company, is developing highly effective drugs in the fight against current and future diseases. Our agribusiness, Hoechst Schering AgrEvo, is ensuring nutrition for the world's growing population through increased crop production.



Life Sciences means a new
future for health and nutrition.

Hoechst means a new future
in Life Sciences.

The Future in Life Sciences

Hoechst 



pharmaceutical company,  **Agrovet** the agribusiness and **Hoechst Roussel Vet** the animal health company.

SAVIN IS WORKING HARD TO BE YOUR NEXT DOCUMENT OUTPUT COMPANY.



At Savin we have one simple goal. To be the one document output company that answers all your document handling needs. That's why we've been working overtime to bring you the forward-thinking, award-winning technology essential to boosting productivity in today's digital offices. With fast, versatile, connectable digital imaging systems that allow you (or your workgroup) to print, sort, duplex and staple — right from your desktop. And full-color imaging systems that turn electronic documents into brilliant hard copy.



But advanced digital technology is just the beginning. Because at Savin we're working hard on becoming the fastest, most responsive name in the business. With smart, highly-trained Savin professionals who will do whatever it takes to give you the satisfaction and service you deserve.

To find out just what we'll do to be your next — and last — document output company, contact us at 1-800-234-1900 or www.savin.com.

savin

WE'VE GOT WHAT IT TAKES TO WIN YOU OVER[®]

Apple, the Apple logo, and Macintosh are trademarks of Apple Computer, Inc. Xerox is a trademark of XEROX CORPORATION. All other trademarks pictured are registered trademarks of their respective owners.

Xerox is a trademark of XEROX CORPORATION. All other trademarks pictured are registered trademarks of their respective owners.

COMMENTARY

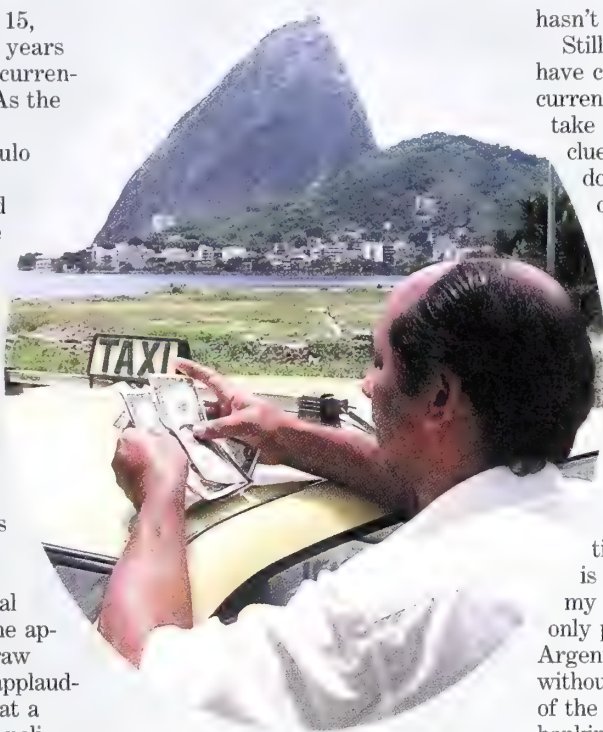
By Ian Katz

BRAZIL: STILL ON THE EDGE OF A CLIFF

It's a Latin paradox. On Jan. 15, Brazil turned its back on 4½ years of defending an overvalued currency pegged to the U.S. dollar. As the real floated freely on foreign exchange markets, the São Paulo stock market soared a heady 16%. It seemed as if Brazil had escaped disaster by taking the easy way out. Next door in Argentina, the Buenos Aires peso also jumped 12%, and the peso firmly held its ground. But far from easing Argentine President Carlos Menem's call for a much tougher jacket for his economy: clinging the peso altogether and embracing the dollar as its new currency.

What gives? These are wild days in Latin America's financial markets. But in the midst of the apparent chaos, it's possible to draw lessons. Investors seem to be applauding both Brazil and Argentina at a time when their exchange-rate policies are diverging. In fact, the market eventually hold Brazil to a tougher standard. The country is only beginning to grapple with concepts like fiscal discipline. Argentina, by contrast, has been squeezing budgets since 1991, when it adopted a tight monetary regime by using a currency board to lock its currency 1-to-1 to the dollar.

The most important lesson is that monetary policy can work without strong economic fundamentals to support it. Sure, Brazil had to act on its valued exchange rate, but the country is still very much on investors' watch list. Congress must carry out long-promised spending cuts and deeper reforms of the tax and social security systems to cut a budget deficit running at 8% of GDP. Meanwhile, President Fernando Henrique Cardoso has to ensure that the profit states make good on their \$73 billion in debt to Brasília. It's clear that if Brazil disappoints again, the economy will turn bad to disastrous. Although capital flight slowed from \$1 billion a day out to \$350 million after the devalu-



A floating real won't do it. Only fiscal discipline will

ation, money continued to move out, indicating that investors think the real has further to fall. Economists' projections that prices will rise up to 10% this year, following deflation in 1998, could be understated. Interest rates, already suffocating the economy and pumping up Brazil's \$200 billion in local debt, were raised to over 40% on Jan. 18. The economy could shrink 5% this year, the worst in three decades. **BUILD TRUST.** So why the bout of market euphoria? First, the real didn't collapse, Asia-style. That's partly because Brazil has taken steps in the right direction over the last few years. Unlike much of Asia, Brazil whipped most of its banks into shape. It has embarked on an ambitious privatization program and allowed relatively open capital markets. And crony capitalism

hasn't strangled Brazilian business.

Still, while Brazil and Argentina have chosen different paths for their currencies, the Brazilians will need to take a close look at Argentina for clues to their next moves. That doesn't mean a currency board, or dollarization, which Menem has been urging on his wayward neighbors. With its political complexity and large economy, Brazil won't seriously consider such schemes. Besides, national pride will likely keep it from ever ditching its own currency. To build market trust and hold down inflation, Brazil will have to duplicate Argentina's fiscal prudence.

Indeed, while many Argentines believe the currency board is the primary reason their economy has been stable since 1991, it's only part of the success story. The Argentine plan wouldn't have worked without austerity and a consolidation of the banking sector. Argentina's banking business is now dominated by foreign institutions such as Spain's Banco Santander.

Brazil could even borrow a page from the Mexicans. Mexico has made its floating exchange-rate system function smoothly by taking a tough fiscal line after the disastrous 1994 peso crash. Argentina and Mexico aren't completely cured, of course. Democratic institutions are immature, and corruption is a problem for both. Meanwhile, domestic savings rates are dismal throughout Latin America, making the region dependent on foreign money.

Brazil may get a dose of reality sooner than it thinks. Analysts are already wondering whether the runup in the stock market had as much to do with technical factors as confidence. Many may have bought stocks betting they could get good values before a new round of inflation kicks in. And they may be right. Brazil needs to stop watching the markets and start focusing on basic problems. If it succeeds, it could stand out as an example for the rest of the emerging world.

Katz is São Paulo bureau chief.

EDITED BY JOHN TEMPLEMAN

RICE BOWL PROTESTS HAVE BEIJING QUAKING

Desperate to get back wages owed by their ailing state-run cotton factory, more than 500 Chinese workers blocked bridge traffic in a town in central China's Hunan province in mid-January. Police sent them away peacefully. In Beijing, several hundred investors in a failed investment company regularly gathered last fall outside government leaders' residences to protest their losses—and police permitted them.

As China's economy continues its wheezing slowdown, such actions are growing ominously common. While authorities crack down on urban dissidents who register political opposition, they allow workers and others with economic grudges the right to protest—as long as the protests are peaceful. Beijing may hope to vent tension caused by growing unemployment with this safety valve.

Yet the government is clearly scared. The gloomy economic situation is likely to worsen and spark more such protests. Unemployment will surge as state enterprises, bloated government ministries, and the military all lay off people. With millions of youngsters entering the workforce, the government estimates unemployment will reach a record 16 million by yearend. Some analysts say the real total is much higher, as much as 20 million, or 15% of the workforce. "How to create jobs for laid-off workers is the government's No. 1 task," says Hu Angang of the Chinese Academy of Sciences.

EXPLOSIVE SITUATION. In a year strewn with politically sensitive milestones, from the 50th anniversary of the founding of the republic to the 10th anniversary of the Tiananmen Square crackdown, Beijing is worried that the situation could spin out of control. Indeed, in recent days, bombs have exploded on buses in both Hunan and the northern province of Liaoning, and unemployed workers are suspected.

Local government budgets already are stretched tight,

and a planned social welfare program that would guarantee unemployment and pension benefits is still a long way off. Some municipalities are providing short-term service as a stopgap measure. Beijing, for example, has opened centers that hire out laid-off workers for temporary jobs ranging from cooking and cleaning to security. And the city plans to put 10,000 unemployed to work cleaning its streets.

Authorities also fear political dissidents will recruit the economic ones to their cause. So police have arrested four political activists since late last year, handing out harsh

tences. Particularly telling was the case of democracy activist Zhang Shuang. For citing farmers' protests in a 1997 interview, he got 10 years in jail. "The government is really scared that those who have tried to organize opposition parties will take their movement to farmers and workers," says Han Imfang, a Hong Kong-based labor activist.

Beijing's level of concern is also reflected in an ongoing campaign against corruption, a perennial irritation for workers. Though crackdowns on corruption have been going on for years, this time the dragnet is claiming victims who were once protected by political connections. They include a Yunnan province tobacco company head and a high-ranking official responsible for combating smuggling. "The leadership knows how much resentment people feel toward officials who have benefited from their positions," says one Western diplomat.

For now, worker protests have been mainly limited to blocking traffic and to impromptu sit-ins at government offices. But all that could change rapidly. Chinese leaders are "sitting in the fire," says activist Han. And it may not be long before the fire spreads.

*By Dexter Roberts in Beijing
Sheri Prasso in New York*



MAD AS HELL: Police block a protester

GLOBAL WRAPUP

DEUTSCHE DEAL GETS COSTLIER

► Analysts are watching Deutsche Bank's flagging share price like hawks. Since news leaked out in December of the bank's bid for Banker's Trust, Deutsche's shares are off 11%. The deal calls for Deutsche to pay a fixed \$93 per share for BT. But London-based Salomon Smith Barney analyst Matthew Czepliwicz figures Deutsche will end up financing up to one-third of the purchase, which he calculates will cost \$10.1 billion, with some form of equity—probably a mix of convert-

ible and new common shares.

Under that scenario, Deutsche will now have to ante up about 4% more shares now than it would have had to in December. "As the Deutsche bank share price falls, the implied return to shareholders falls, too," warns Czepliwicz.

ISRAEL KEEPS CONTROL OF FIRM

► Israel is getting picky about what it will let foreigners control. In December, Canada's Potash Corp. of Saskatchewan bought a 9.3% stake in Israel Chemicals, which controls all

mineral rights in the Dead Sea. It wanted to build that stake by buying a majority of Israel Corp., which has a 52% stake in Israel Chemicals, and owner Erwin Eisenberg.

But local opposition to the deal got so strong that So Eisenberg sold his Israel Corp. stake to the Ofer Group, owned by Israeli billionaires Yuli and Sammy Ofer, for \$330 million. Sources close to the group say PCS offered substantially more. So Eisenberg, who wanted a quick sale because of a family dispute, feared the government and the Knesset would delay any deal with the Canadians.

What a laptop can do.

Get e-mail. 2. Send e-mail.
Search the Net. 4. Prepare memos.
Check appointments and contacts.
Set up a new derivative pricing
model. 7. Put together a 3D animated
short film. 8. Lay out the company
newsletter. 9. Analyze data from radio
telescopes. 10. Edit digital video.
Design a new kitchen. 12. Develop
new software. 13. Develop new CD-
ROMs. 14. Retouch swimsuit photos.
Play photo-realistic 3D video games.
Assist with scientific visualization.
Play back audio CD. 18. Expedite
numerical analysis. 19. Do mail merges
for the high school reunion (unless you
went to a really small high school).
Aid in digital signal processor
design. 21. Do database programming.
Use lots of floppy disks. 23. File
income tax returns. 24. Composite
digital video. 25. Author virtual reality.
Store a large number of files.
Connect to a large number of
external storage devices. 28. Play
educational CD-ROMs. 29. Conduct
virtual reality demonstrations.
Balance the checkbook for a

What you really do.

1. Get e-mail. 2. Send e-mail.
3. Search the Net. 4. Prepare memos.
5. Check appointments and contacts.

Powered by



Microsoft®
Windows® CE

Handheld PC

Jornada

roducing the Jornada 820 Handheld PC.
us 6 pounds.

venient-size screen and keypad.

o than 10 hours of battery life.

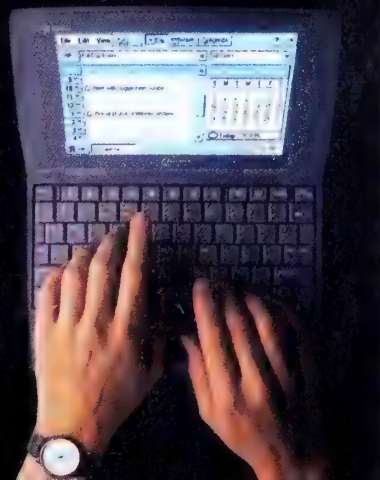
With 56K modem and Pocket Office

are built in. And less-vital stuff left out.

99 Available at CompUSA, Fry's,

ic Center, J&R Computer World, and

le Office Depot and Staples locations.



**HEWLETT®
PACKARD**

Expanding Possibilities

street price subject to change. Microsoft, Windows
Windows CE logo are either registered trademarks or
of Microsoft Corporation in the United States
or other countries. ©1998 Hewlett-Packard Company.

www.hp.com/jornada

COMPUTERS

WHAT MAKES RICK RUN?

Why heir apparent Rick Belluzzo left the catbird seat at Hewlett-Packard for beleaguered SGI

Sitting in the front row of the company auditorium soon after his arrival as CEO last January, Silicon Graphics' Richard E. Belluzzo saw stark evidence of the problems he had taken on. There to unveil his grand turnaround plan, he watched as Chief Financial Officer Steven J. Gomo asked the top 50 execs: "How many of you run profit-and-loss centers?" Most of the hands shot up. Then Gomo asked: "How many of you are profitable?" The same hands were raised. But when Gomo asked: "So who's responsible for all the money we've been losing?" not a single hand surfaced. Belluzzo sat rolling his eyes in amazement.

Rather than running for the exits, though, it was exactly the kind of Herculean challenge Belluzzo had been looking for. A working-class kid who had become the quintessential company man during a 22-year stint at Hewlett-Packard, Belluzzo felt he had outgrown his post as HP's No. 2. It was time to take on a job that would prove his mettle in the toughest of circumstances. "I had to decide if I wanted to be a career guy or return a troubled company to glory," he says. "What will Lou Gerstner be known for—American Express or IBM?"

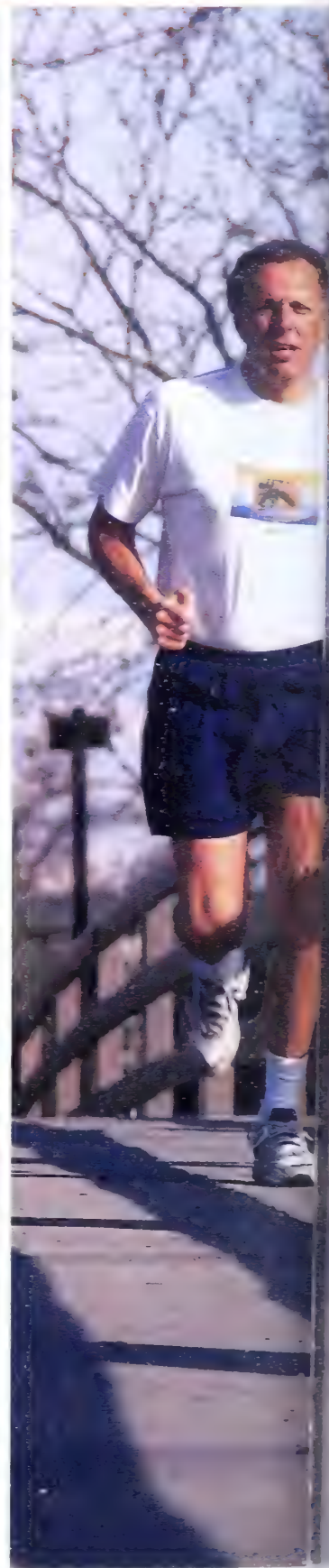
"SITTING DUCK." Belluzzo has gotten just what he asked for. Today he works up to 17 hours a day trying to fix one of the worst operations records in techdom: \$450 million in losses over the past 10 quarters triggered by product delays, production shortfalls, and a shocking lack of controls. SGI's stock has barely budged since he arrived, languishing at 15—down from 25 in 1995. Worse, 75% of SGI's \$3.1 billion in sales come from shrinking markets such as Unix workstations and supercomputers. "We think they're a sitting duck," says Janice Chaffin, a general manager at rival Hewlett-Packard Co.'s computer unit.

That's why Belluzzo is overhauling almost every aspect of the company. Like a one-man wrecking crew, he has refined SGI's strategy, remade its operating processes, and tirelessly jetted around the world to keep nervous customers from bolting. On Jan. 11, Belluzzo gave customers another reason to stick around: The Visual Workstation, a Windows NT machine that carries SGI's trademark slick design and dazzling graphics—but not its premium pricing. Instead, he's plunging SGI smack into the rough-and-tumble business of making high-volume workstations based on Intel and Microsoft standards. He's betting this will kick-start revenues and help return SGI to profitability.

On the surface, Belluzzo hardly seems the type to build billion-dollar businesses. Unlike his well-schooled peers, his résumé shows only an undergraduate accounting degree from Golden Gate University in San Francisco. He hates ostentation, preferring family ski trips to yachts or planes. And last spring he stunned SGI board members by asking that they scrap a clause in his contract that guaranteed him \$10 million even if he couldn't lift SGI's shares over the next few years. "He just didn't feel good that other people had things to lose and he didn't," says SGI board member C. Richard Kramlich, a venture capitalist.

That's not surprising when you consider Belluzzo's upbringing. He is the son of a machinist, who was captured during World War II while serving in the Italian Army. Belluzzo began working at age 11, sometimes to help support his family, doing everything from sweeping floors to picking prunes at orchards near his boyhood home in Santa Rosa, Calif. "I had immigrant parents who worked hard," he says. "I was just brought up that way, to carry your weight."

But it was only after his humbling encounter with a high-school guidance counselor that Belluzzo—then an overweight, shy, mediocre student—also developed ambition. The counselor told Belluzzo he wasn't college material. "That motivated me to go to school, and do something more than manual labor," he



HOW BELLUZZO AIMS TO REFOCUS AILING SGI

THE NEW CEO HAS A FIX-IT PLAN...

DRIVE SALES As he did at HP, Belluzzo hopes to drive low-end sales with Silicon Graphics' first Windows NT computers, unveiled on Jan. 11. At the same time, he's developing new ways for customers to use SGI's more powerful Unix servers, such as putting supercomputers in hospitals so surgeons can see high-resolution simulations of heart-bypass surgery.



REVAMP OPERATIONS To get in line with lean-and-mean rivals, he has sold two of four factories and plans to outsource production of 95% of SGI's computers. He also slashed \$200 million of the operating budget and implemented tough new procedures for everything from hiring to demanding strict return-on-investment analysis on new projects.



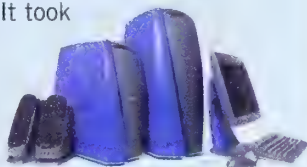
CHANGE THE CULTURE

His "Get Serious" campaign includes banning dogs at work and forbidding salespeople from making unrealistic promises to customers. And to end technology leaks, he sued three startups staffed by SGI alums.

...BUT HUGE OBSTACLES REMAIN

COMPETITION Given the vastly improved performance of rival computers, there may not be enough customers who care about SGI's snazzy graphics. SGI must also counteract plummeting sales of its Cray supercomputers by selling more of its Unix Origin servers in a market crowded with strong Unix rivals.

EXECUTION Slow-moving SGI will be hard-pressed to meet the rapid product cycles of the Wintel market. It took SGI 27 months to deliver its first NT workstation, while rivals churn out new NT models every six months.



TIMING Belluzzo is casting his lot with the Wintel standard just when Microsoft's Windows NT 5.0 and Intel's Merced chips—both expected to boost NT sales—have been delayed.

says. Soon after, he dropped 50 pounds, hit the books, and traded in a job hauling furniture to sell shoes during his senior year. "That was a big deal for me, since it forced me to deal with people," he says. "It was the start of my confidence."

It also was the launching of Belluzzo's career. HP's printer business was a tiny backwater operation based in Boise, Idaho, when Belluzzo arrived in 1977. The young executive quickly made HP's printers easily available and affordable by lowering manufacturing costs and by getting them on the shelves of retailers. Today, the business is a \$17 billion empire. "Rick always saw the details as well as the bigger picture," says HP board member Richard A. Hackborn, Belluzzo's longtime mentor.

NEVER SAY DIE. True to his blue-collar roots, Belluzzo credits hard work. "I was always the hustle guy," he says. His closest friend Terry Copple, a lawyer, says Belluzzo is "extremely smart, but he's not scary smart. What's scary about him is his intensity." Copple recalls a recent jog when Belluzzo fell, badly bloodying his knee but refusing to stop and ruin Copple's run. "He wouldn't even slow down."

Belluzzo has brought that never-say-die approach to SGI. Within two months of his arrival, he completed a previously planned spin-off of SGI's MIPS chip subsidiary and raised \$71.6 million by selling a 15% stake. He sold two of SGI's four factories as part of a cost-cutting plan to save \$200 million in 1999. And he streamlined SGI's operating structure, replacing a gaggle of 26 profit-and-loss entities with five product groups. "If he can get 95% of what he wants in five minutes, he'll do that, as opposed to dickering around for four hours to get 96%," says Intel CEO Craig Barrett.

Indeed, it took Belluzzo less than a day to put to rest the debate that had paralyzed SGI for half a decade. It happened last January at Belluzzo's first board meeting as the CEO. SGI workstation chief Thomas C. Furlong outlined an existing plan that would put a toe into the market for machines based on Intel chips and Microsoft's Windows NT software. Furlong braced himself for tempers to ignite, but Belluzzo wanted to go whole hog. "You're doing exactly the right thing," he told Furlong. "But let's not just change a piece of the company. Let's drive those changes across the entire company."

Belluzzo is doing just that. He's pounding away at SGI's freewheeling culture. Engineers, for instance, had long pursued costly pet projects. But after a quick analysis, Belluzzo axed six of

Information Technology

them, including a high-risk effort to make a gizmo code-named "NetBook," an electronic book. The moves saved more than \$40 million, says Gomo.

And, just as he did at HP, Belluzzo understands the importance of spending time with customers. Larry Smarr, a longtime customer and director of a supercomputer lab at the University of Illinois, says former SGI execs criticized him for keeping a database of customer complaints about the company. But Belluzzo invited Smarr to meet with him just weeks after joining SGI, asked to see the data, and immediately told SGI engineers to work on the problems.

WORK, WORK. Belluzzo works fast, but not because he's in a rush to get home. Outside of jogging and working out a few times a week, he has few pastimes. It's work, more work, and lots more work. His friend Coppell recalls an instance a few years ago when Belluzzo asked him to pull the car over during a family trip to Disneyland so he could run into the local CompUSA Inc. to check on printer sales. After he got back in the car, he fussed for 15 minutes over something a sales clerk had told him.

Such devotion to HP already was straining Belluzzo's marriage. His wife,

Claudia, had come to resent his hectic travel schedule and never-ending responsibilities—especially after he took the No. 2 post at HP in 1995, friends say. The couple, who have two teenage

she says. "Sometimes, I think his success came about too fast. He used to have a lot of fun, but now it's business, business, business."

It's just that addiction that may

RICHARD BELLUZZO

BORN Nov. 26, 1953

CHILDHOOD Son of a machinist in Santa Rosa, Calif., he began working odd jobs at age 11, from sweeping doctors' offices to picking prunes at nearby orchards. But he didn't excel at school. "He wasn't a most-likely-to-succeed kind of guy," says a childhood friend.

LIFE-CHANGING MOMENT After a high-school counselor told the pudgy Belluzzo that he wasn't college-grade material, he dropped 50 pounds, hit the

boys, are separated, and the divorce should be final next month. "Clearly, this lifestyle over multiple years takes a toll on a relationship," says Belluzzo.

Even his mom, Doris, worries about her son's workaholic ways. While he's clearly enjoying the challenge of fixing SGI, "he's gotten much older-looking,"

books, and got an accounting degree from Golden Gate University in 1975.

CAREER HIGHLIGHTS Joined Hewlett-Packard in 1975 and quickly climbed the ranks, ultimately becoming No. 2 executive. He is credited with spearheading HP's success in the PC and PCs.

WHY HE JOINED SGI "I had a feeling if I wanted to be a career guy at a troubled company to glory,"

WHAT HE HATES Ostentatious expense-account padding, and the nickname "Rocket Rick," a nickname

what the doctor ordered for SGI. Belluzzo return the outfit to its high school days? The Windows NT-based Visual Workstation is a start. Priced as low as \$3,400, the workstation offers far better graphics than similarly priced machines and could help reel in SGI's first customers in years.



Belluzzo may also pay a price for making growth the Wintel way. Anyway only a small percentage of Windows NT market—say, computer tutors or special-effects houses—care about cutting-edge graphics. I don't know of any company that has made the jump [from proprietary to in-

fat as the new NT machines. But since former CEO Edward R. McCracken purchased Cray Research Inc. in 1995, sales of Cray's supercomputers have plummeted 40% annually as customers moved to cheaper machines. And while SGI's superfast Origin servers are beloved by customers, SGI remains

ing high-end server markets, leverage SGI's strengths in graphics to create new uses for these \$20,000-plus servers. He has launched a 200-person group that will work closely with customers in six core industries, including entertainment and energy. This already has yielded some wins. SGI, for example, edged out IBM in September when Pacific Life Insurance Co. opted to spend \$3 million on an Origin 2000 server that turns mind-numbing spreadsheets into graphics. "It has a very powerful capability that no one else has," says Pacific Assistant Vice-President Lisa H. Skinner.

That's the kind of talk Belluzzo hopes to hear from more customers. He has traveled worldwide, sometimes embarking on country-a-day swings through Europe and Asia. That's a pace Belluzzo hopes he won't have to keep up. "I don't want to retire and look back and see that I never took a two-week vacation," he says. So he took his two teenage sons scuba diving in Key West over Thanksgiving break. But ask him when he's really likely to ease up and he is—per usual—brutally honest. "Business is what I know how to do. It's my strength and my weakness." Or rather, SGI's strength and his weakness.

By Peter Burrows in Mountain View, Calif., with Andy Reinhardt in San Mateo, Calif., and bureau reports



earned at HP for his meteoric rise.

HOBBIES Running, scuba-diving, skiing—but rarely. "He's definitely a workaholic," says his mother, Doris.

HOME LIFE Separated from his wife of 23 years, who didn't want to relocate from Boise, Idaho, to Silicon Valley. Belluzzo keeps an apartment in Boise for weekend visits to his two teenage boys.

ON WORK-LIFE BALANCE "When you work this hard, it's hard to be close with anyone," he says. "Clearly this lifestyle over multiple years takes a toll on a relationship."

standard technology] successful—Sun Microsystems Inc. CEO J. McNealy.

desktop market is only part of SGI's problems. SGI's future rests largely on its Unix servers and supercomputers, which bring in roughly double sales and profit margins twice as

much as in small markets such as academia while rivals Sun and HP tap into huge commercial markets. Merrill Lynch analyst Steven Milunovich expects SGI will lose \$89 million on sales of nearly \$3 billion for fiscal 1999, ending June 30.

Belluzzo's plan: rather than go head-to-head with stronger rivals in exist-

BREAK GLASS

Mercury Grand Marquis. Imagine yourself in a Mercury

spacious interior • PrecisionTrac™ suspension system • All-Speed Traction Control
 • 5-star government crash test rating** • 800 446-8888 • www.mercuryvehicles.com

Chaos is all around her.

Good thing answers are right in front of her.

(In online lab reports, X-rays and MRIs.)

She's connected to all of it.

All at once.

When you have the right network, it's a lifeline.

How's yours?



More connected

Healthy networks don't just help save lives. They actually propel businesses. That's why 3Com enables networked imaging for everything from healthcare and financial services to desktop video and CAD/CAM applications. Visit us on the Web at www.3com.com/moreconnected to learn how 3Com networks are driving the applications that drive mission-critical organizations. Because if we can do it for theirs, just imagine what we can do for yours.

Special Report

ENTERPRISE

Timely Insights for Small Business

1 Box page 2

st Facts

indicator to measure the local economy, finger-
nt scanners, spammer-backed shareware,
ere entrepreneurs get their smarts, and more

arketing page 4

akeover Time

en one marketer decided
own image was inadequate,
pent 22 months on an
rhaul



Technology page 6

A Print Shop for Non-Pros

Desktop publishing used to be
dominated by intimidating
programs. Not any more. New
products are no-brainers and
can save you a bundle



Finance page 10

Finessing 401(k)s

New pension rules let you offer
extra benefits to top talent while
still protecting lower-paid workers

Under 30 page 14

Pursuing Wow

Two years out of college, Bradley
Berkley hatched his second start-
up, a specialty plastics company.
Now, it's doing \$10 million in sales



AT ENTERPRISE ONLINE

Ask Enterprise We tell you how to find the best mes-
saging service, figure the cost of a lease, and swap files on
the Web **Finance** How much is your company worth?
Advice Keeping your best people in a hot job market

enterprise.businessweek.com

IN BOX

EDITED BY
EDITH UPDIKE

GAUGING THE STATE OF THE STATES



THREDGOLD: His model monitors local economies

Almost daily, government and financial institutions release economic data. Corporate America relies on these numbers for strategic planning, but knowing the money supply won't aid local entrepreneurs much. Now, Jeff Thredgold, former chief economist for KeyCorp. and founder of Thredgold Economic Associates in Salt Lake City, has developed a formula to measure the economic environment for small business. He combines 14 factors, from

unemployment and tax rates to commercial rents, but uses state rather than national figures to get a clearer picture of the local economy.

In 1991, for example, Nevada small-business conditions waned while Utah's picked up. And factors are weighted according to their impact on small business. High employment makes governors happy, but drives up labor costs. The indicator, developed for Utah, is now being calculated monthly for five Western states by subsidiaries of Zions Bank (www.zionsbank.com). More states will soon be covered.



SHAREWARE OR SPAMWARE?

Cash-strapped startups may be tempted by Net offers for free auto-responders—software programs that automatically reply to E-mail requests for information on your company or product. But beware the shareware. Some programs are backed by spammers; they grab any E-mail address going through your system and pass it back to the spammer. Shop for “free” software as you would any other product: Check third-party reviews, and do a test run before trying anything on your customers.

401(k)s: A POP QUIZ

Only 30% of small-company workers are covered by a 401(k). Most employers who don't offer the plans call them too expensive. But the real reason may be ignorance. In a recent poll, nearly half of business owners got at least two of these questions wrong:

TRUE OR FALSE?

1. You legally must match anything an employee contributes to a 401(k).
2. Once you set up a plan, you can't terminate it.
3. You can set up a plan for less than \$2,000.
4. You can share the administrative costs of a plan with employees.

4
3

DATA: EMPLOYEE BENEFIT RESEARCH INSTITUTE
AMERICAN SAVINGS EDUCATION COUNCIL

SO THEY SAY

“We weren't making the time to apply our own advice to ourselves.”

—Moirá Shanahan, founder of marketing consultancy Braindance, on her own corporate makeover (page 4)

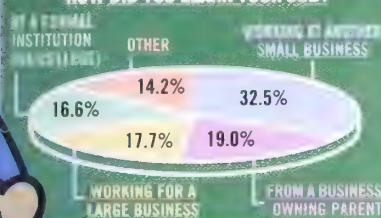
DIGITAL SECURITY

Fingerprint scanners offer a more reliable computer security than passwords, and now, some are as low as three digits, so even the smallest businesses can let their files go. The key benefit is that fingerprints can't be forgotten. So, you can't guess. Compaq Computer's new print Identification Technology requires the reading hardware, which is added to a monitor or PC, plus the software. It's the cheapest—\$199 directly from Compaq (800-441-1000). Another budget option is the Safesight Fingerprint Reader from Allsafe Computer Technology for \$199 (\$100 from the previous model, 755-1957).

58% OF SMALL BUSINESS EXECUTIVES SAY THEY WOULD BE WILLING TO

The Entrepreneur's Education: Hard Knocks U.

HOW DID YOU LEARN YOUR JOB?



WHAT SKILLS OR KNOWLEDGE DO YOU NEED TO ENHANCE?

BUSINESS FINANCE	11.4%
MARKETING	22.8%
BUSINESS TAXES	15.3%
BUSINESS LAW	13.1%
RAISING CAPITAL	12.6%

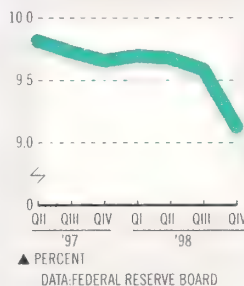
DATA: AMERICAN EXPRESS (POLL OF 448 BUSINESS OWNERS WITH FEWER THAN 100 EMPLOYEES)

IVY-COVERED HALLS VS. STREET SMARTS

Slightly more than half of entrepreneurs studied business in school, with 40% earning a bachelor's

and 11.6% going for an MBA, according to a recent American Express poll. But the vast majority say they learned the most useful skills at Hard Knocks U. Only 16.6% say that a formal education was their primary source of knowledge about starting and running a business. Of course, that's not to say they couldn't use a few more lessons. Most admit to weakness in at least one area of finance.

SMALL BUSINESS LOAN RATES



If you want a loan, your timing's great. The going rate on small commercial borrowing fell again in the fourth quarter. Federal Reserve data show that the average rate on loans of up to \$100,000 was 9.13%, down from 9.59% in the prior quarter and 9.66% a year ago. Loans of \$100,000 to \$1 million cost 8.12%, shaving almost a half-point from the third quarter and down from 8.76% in 1997's fourth quarter. The best rates on the smallest loans (7.99%) generally came from foreign-owned banks. Small domestic lenders offered the worst deals, averaging 9.4%. But they gave the longest average maturities.

NICE IDEA

Does being nice to workers pay off? Yes, says a study in *Harvard Business Review*, which concludes that workers who get time to take care of personal crises are more productive. The study, *Work and Life: The End of the Zero-Sum Game*, interviewed more than 100 people, focusing on supervisors who made extraordinary accommodations. Workers always responded with great loyalty—and helped managers solve business problems. Co-author Stewart D. Friedman, a Wharton School professor, cited entrepreneurs who practice these ideas. One owner said: "If I can't get one of my key employees to the doctor in the middle of the day, I'm going to lose her. So I drive her there." Another lists workers' personal commitments on the company calendar, so everyone can plan around those dates.

THE RIGHT CALL

Which long-distance service offers the best rates? That depends on which plan and options you pick. You can sort it all out with WebPricer (www.trac.org). Punch in your area code and the regions you call most frequently; back comes a comparison among six major national carriers.

For the full stories, click Online Extras at enterprise.businessweek.com

web.idirect.com/~tiger/supersit.htm

A satisfyingly comprehensive starting point that's delightfully easy to navigate

www.go-global.com

Easy look-up for travel extras: Holidays, weather, phone codes, voltage, etc.

www.fita.org

So many links that if you can't access it through here, it ain't international biz

www.imex.com/naftz.html

A-to-Z on free-trade zones, where exports escape customs duties

www.bena.com/ewinters/xculture.html

Essays on cross-cultural business issues to consider

www.dtonline.com/expand/excover.htm

A miniature B-school course in exporting from Deloitte Touche Tohmatsu

EXPANDING YOUR BUSINESS GLOBALLY

HOW'S THIS FOR A CHANGE?

A marketer prescribes a total makeover—for itself

Moira Shanahan was planting tulip bulbs in her yard in suburban Atlanta on New Year's Day, 1997, when she began mulling over the state of her 12-year-old company. By any measure, NewsLetters Plus seemed successful—a fast-growing, \$10 million business, whose 48 employees helped big companies hone their sales strategy and image.

But what did Shanahan see? A dull, tired company name that didn't reflect the firm's expanding services; a shabby, overcrowded office that inhibited employees' creativity and did little to inspire clients' confidence; a top-heavy management structure that pushed clients and creative staff further apart; a company that had grown so much and changed so fast it was facing an identity crisis.

Then Shanahan had an epiphany. "We'd been so busy helping clients hone their marketing messages and sales techniques that we weren't making the time to apply our own advice to ourselves," she recalled.

She resolved that it was time for her company to undergo a head-to-toe makeover, one that would reflect its broadened focus, which now went far beyond newsletter production to include sales training and strategy, as well as content development for Web sites and intranets.

SWAT TEAMS. Over the next 22 months, Shanahan and her staff reinvented NewsLetters Plus by rethinking all aspects of its business and the image it projected. Then they resorted to nearly every device in the marketer's tool kit to communicate those changes to clients.

When the metamorphosis was complete, even former clients were surprised—and gave them a second look.

It was a familiar drill for Shanahan. She frequently recommended to clients that they overhaul their identity with steps that range from changing a company's name to rethinking its mission. It's something thousands of businesses

of all sizes do every year to get out of a rut or raise their profiles.

To jump start the process, Shanahan often suggested a company retreat. So, in May, 1997, she staged a 3½-day "Morphathon" for a handpicked group of 11 employees from all levels. They met at a whimsical pink marble mansion-turned-bed-and-breakfast in rural Tate, Ga., to discuss "who we want to be as a company when we grow up," says Shanahan.

Activities alternated between grueling meetings to hash out sales strategy and offbeat efforts to spur creativity. In one such workshop, Vice-President Janet V. Reed was told to bring in something

that she felt symbolized the company. "I brought a stewpot because I see us bubbling over with ideas," she says. By the end of the weekend, they had reached a consensus: Their company needed to be "larger, smarter, world-class, edgy, and aggressive, the best of the best," says Shanahan. Everyone was assigned to SWAT teams to tackle different aspects of the makeover.

Because of the slow trademarking process, the highest priority was choosing a new name. "Every time we were pitching for new business, I felt like we had an uphill

IF THIS IS YOU...

Some warning signs that your name or image is hurting the company

CLIENTS offer even slight criticism of your image or moniker. Take it to heart; most are probably reluctant to bring up such a sensitive subject.

PROSPECTS aren't biting, and your salespeople have to overexplain what you do.

STAR RECRUITS react negatively to your name and are slow to respond to offers.

INSIDERS including yourself feel the company has outgrown its old name and image because its mission has expanded or changed.



battle to prove we could do more newsletters," says Shanahan, particularly when it came to reaching companies outside of her region.

"RAINMAKING." The name game began earnest early that summer as employees competed for \$100 rewards for their suggestions. One afternoon late in November, Shanahan reviewed a list of proposed names from her staff. Braindance, jumped off the top. "Braindance was jarring, but I was coming back to it," she says. The name melded two concepts: brainstorming and "rainmaking," or bringing in business. "It had an energy and fullness that I liked," she says.

To test it on clients, Shanahan turned to a marketer's classic, the focus group. The result? They split 50-50, either loving or hating it. But once they viewed the accompanying graphics and the tagline—"Marketing Muscle"—75% favored the name, including the biggest and best clients. Finally, her executive team chose Braindance, 7 to 3.



nior manager of product development for American Express TRS Co., she can find everybody she needs in one bright, cheery space that encourages creativity. "Energy spills out from everywhere," she says.

Shanahan tried to create a sense of suspense and excitement about the "new" company during the renovation last summer. First, she covered over the covered over the large "For Sale" sign in front of the building with her own eye-catching one-line ads that changed weekly. They featured such puzzling phrases as "The adventure begins" and "Ideas spark." She also launched a series of direct mailings to 5,000 prospects (including some former clients), with postcards bearing the same one-liners and, later, boxes of logo-emblazoned promotional goods announcing the firm's relaunch. Pete Kalison, sales program manager for Sun Microsystems Inc.'s Southern U.S. region, had hired Shana-

out to suggest an active mind, for \$80 apiece. She and Reed hand-delivered them to clients. For added pizzazz, Shanahan's public-relations firm, which handled media publicity for the launch, got the mayor to declare Sept. 25, 1998, the day of the ribbon-cutting, Braindance Day. That attracted extensive local TV coverage and helped the city publicize the migration of exciting young companies to the Midtown area. At 5 a.m., Braindance employees, with the police department's blessing, spray-painted a stencil of the new company name and logo on local sidewalks.

MEDIA BUZZ. Like most complete image makeovers, this one was costly. It absorbed a good six months of Shanahan's time, which she might have spent getting new business. Sales were flat at \$15 million last year, vs. typical annual growth rates of 25% to 30%. In direct costs, add on \$350,000 spent on the retreat, advertising, PR, and marketing; \$2.6 million to buy and rehab the building; and \$500,000 for a new computer network and other technology. To maintain the buzz about Braindance, Shanahan has doubled her promotions budget, to 4% from 2% of annual revenues. She ran her first national ad in a marketing magazine this month.

Is all the fuss and expense worth it? Image consultant Joey Reiman, president of BrightHouse Ideation Corp. in

Atlanta and author of *Thinking for a Living*, says a true makeover—one that both inspires customers and invigorates employees—can work wonders. But slapping on a new name for a quick fix is a waste of time. He says Braindance took the right approach: "A makeover has to be multidimensional. Everything a company does communicates: the name, the brand, the address,

the employees, and the experience."

For Braindance, anyway, the strategy seems to be working: Giant travel insurer Travel Guard International of Stevens Point, Wis., hired Braindance in January to do all its marketing in a six-figure deal. And Sun Microsystems has begun to throw more national business Shanahan's way, too. At this rate, she expects to recoup her investment in less than 12 months. That's an astounding return—and a sure sign that makeovers can be more than skin-deep.

By Echo Montgomery Garrett
in Atlanta

For more on changing a company name, click
Online Extras at enterprise.businessweek.com

BRAIN TEASERS: Shanahan sent one-line puzzlers to 5,000 prospects and former clients

SHANAHAN: ADJUSTING AN IMAGE OUTFIT'S IMAGE

han years earlier to do newsletters for Apple Computer Inc. He called as soon as he received his box. "I had no idea her company did all these other things," Kalison says.

Observing all the activity from her office across the street, competitor Ruth P. Doering, 39, executive vice-president of Ketchum/Crescent, was impressed. "Braindance did a great job of building the suspense, and this campaign allowed them to retell their story," she says.

The anticipation climaxed in an elaborate publicity blitz. To celebrate the new name and move, Shanahan commissioned a local artist to handcraft 30 metal sculptures of the company's logo—a head with rays and arrows shooting

ough some clients and executives
her to adopt the name right
Shanahan waited. She wanted to
out in concert with an even big-
p—a move from suburban Tuck-
tanta's bustling Midtown neigh-
d in September, 1998.

e spring, the company bought a
1950s-era two-story, 16,800-
foot building on Peachtree Street
million and spent an additional
on to renovate it inside and out.
enough to hold twice the current
id boasts 13 spiffy conference
Airy, wide-open spaces sport
colors, curved corrugated metal
nd skylights.

SPACE. In keeping with the
ian spirit Shanahan sought, she
private offices and eliminated
ment layers, reorganizing staff
ustry-specific strategic units.
ts already see a difference. Be-
mployees labored in dark, dreary
s and in three separate build-
w, says Marika Bitetzakis, a se-

Michael Rogak has a small business. He makes chocolate.

Michael's dad, Martin, started marketing his confections to Brooklyn in 1946. Michael is still in Brooklyn today, but his chocolate is enjoyed just about everywhere in the country.

Michael uses his computer to keep track of his growing business, but he'd rather spend his day creating candy. So he's getting Microsoft Windows NT Workstation 4.0 on his new computer. It's three times more reliable than Windows 95

Which means instead of fiddling with his computer, Michael can concentrate on making truffles and buttercrunch that are every bit as good as his dad's.



Windows NT
Workstation

Microsoft

Where do you want to go today?

1-800-WINDOWS for a free guide

*SOFRES/InterSearch Windows OS user Reliability Study (6/98). Participants using Windows NT Workstation were about three times less likely to experience serious system stoppages than Windows 95 users surveyed.
© 1999 Microsoft Corporation. All rights reserved. Microsoft, Windows, the Windows logo, Windows NT and Where do you want to go today? are either registered trademarks or trademarks of Microsoft Corporation in the United States and/or other countries.



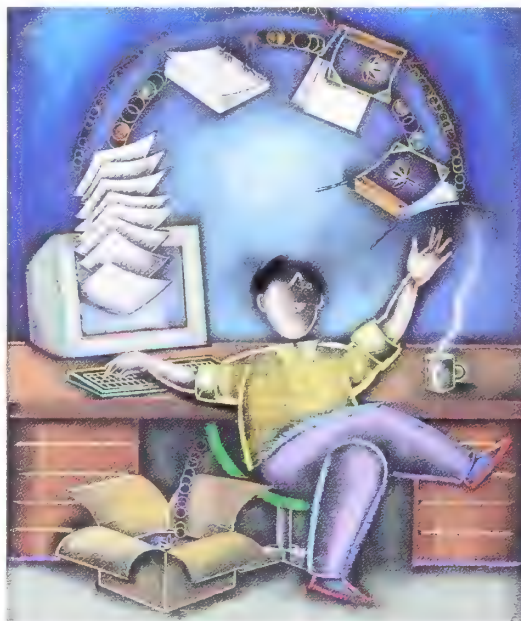
THE PRINT SHOP ON YOUR DESK

Self-publishing programs can save you time—and money

When Charlie Hayes, a sports marketer, needs a jazzy brochure for a cash-strapped client, he cuts a corner that few notice. He does it himself, on the cheap. Using a \$100 self-publishing program, Hayes, of Action Group in Foothill Ranch, Calif., lays out the document, inserts pictures, selects typefaces, and keeps on tweaking until everyone is satisfied. Then he gives the client—usually a race-car team—digital copies on diskette to revise as needed. “If they need to make any changes, they don’t have to come back to me,” he says.

Until recently, it wasn’t so simple. Desktop publishing was dominated by intimidating programs like QuarkXPress and Adobe PageMaker. But change is coming fast. Last year, 2.4 million small companies did some form of desktop publishing, up 15% from 1997, says Access Media International in New York.

Granted, a graphic artist can still provide a unique look. But if your materials are simple—newsletters, circulars, pamphlets—and if they’re revised often, check out some of the recently updated programs for nonprofessionals. You could save money on design—the pros charge up to \$1,000 for a four-page newsletter—and you may even



be able to print it yourself with new, low-cost, color ink-jet printers. Important, too, is flexibility. “You get control over the message, the quantity, and the timing,” says Roger C. Parker, a consultant and author of *Desktop Publishing & Design for Dummies*. “It allows you to target market segments in a whole new way.”

First, though, make sure this is a good

use of your time. You shouldn’t spend hours learning this stuff just to save on simple business cards. “You can suck into too much do-it-yourself if you should be on the phone with customers,” says consultant Kellee Haas, owner of MarketSpark Sports Marketing in Portland, Ore. She learned in “a few hours” how to create most of her materials but still farms out commercial work such as slick, four-color brochures. If you’re too busy to learn, let a mid-level employee take on the task, suggests Kneko Burney of the Career In-Stat Group, hire a tech-savvy high-school student.

You may already have the rudimentary publishing tools, including your own major word-processing program. Newer versions of Microsoft Word and Corel WordPerfect include a wide variety of templates—ready-to-use layouts that have pictures and fake text as placeholders that you replace with your own. (In Microsoft Word and WordPerfect, look for the File and click on New). These can be the basis for newsletters, annual reports, and other business documents.

LOW COST. Not happy with the look? You can move text boxes, pictures, and clip art and substitute different typefaces. The downside: templates lack some of the on-screen guides and prompts that make publishing programs easier to use.

low, and changing things on the page more awkward and time-consuming. So if you plan to do a lot of your own publishing, consider specialized software aimed at nonprofessionals: Microsoft’s Publisher 98, Corel’s Print Office, and Broderbund’s PressWriter (PressWriter is the only choice for Mac owners.) None will set you back more than \$100, and you’ll get many of

SOFTWARE

DO-IT-YOURSELF PUBLISHING: WHAT’S RIGHT FOR YOU?

There are three classes of products available. Check them out to see which one best meets your needs, budget, and skills.

TOOLS

Word-processing programs, such as Microsoft Word or Corel WordPerfect.

COST

None. You probably already have one on your computer.

PROS

Templates included, familiar formats, ease of use.

CONS

Inflexible, difficult to alter page layouts or to import images.

INTERMEDIATE

Dedicated software. Category leaders are MS Publisher 98, Corel Print Office, Broderbund’s PressWriter.

Under \$100.

Easy to learn and use; templates provide variety of styles; clean, classy results.

Clumsy interface and printing glitches; limited typographical control; not always available for Mac.

ADVANCED

QuarkXPress, Adobe PageMaker

\$600 to \$800.

Flexible and powerful; can handle any image, any design.

High cost; require powerful computers and extensive training.

"HOW COME
ONE OF OUR DESKS
IS THE SAME PRICE
IN EVERY SHOWROOM,
BUT A 69¢ CUP
OF COFFEE IS \$2.00
IN NEW YORK?"

~ Ben Hopkins, Truck Driver
Office Furniture USA



in unpredictability getting and precisely what a lot of the nation's top
life interesting. it costs. At Office Furniture manufacturers. We make
you're spending USA, we've made buying the same deal with all of
Then you want to office furniture just that them: "Give us your best
exactly what you're simple. See, we work with stuff at your best prices,

and we will give you a
lot of business in return."

It's a good deal for every-
body. Even better, **once**
the price of a particular
item is set, we guarantee
it won't change for an
entire year. This way, you
don't have to worry about
waiting for sales or special
promotions. There's no
buyer's remorse thinking
that you could've gotten

a better deal because,
frankly, there just isn't one.
And you'll see the same
thing when you visit any
of our nationwide show-
rooms. It's consistent, and

all consistently good. And
when was the last time
you said that about coffee?

OFFICE FURNITURE
OFUSA

www.officefurniture-usa.com
877-FIND-OFUSA

A whole new set of values.

features that pros take for granted. The three differ mainly in template design, clarity of onscreen help, and ease of use, but all offer a much greater variety of templates than word processors.

To get you started, each program offers step-by-step guidance. The Windows programs use the familiar "wizard" approach, which gives you a series of choices to create a document. What do you want to make, a newsletter or a menu? A classic look or art deco? What color scheme works best? Click the last button, and you've got your document. The program will remember your fonts and other design elements if you want to use them on other projects, too.

FAMILIAR FACE. Which works best? Publisher, with its familiar Word-like interface, is fastest to learn and has the most sophisticated designs; it also offers better onscreen guidance. Print Office's wizards can be confusing, and executing some important commands takes more steps.

These programs come with CDs full of clip art and stock photographs—from urban skylines to farm animals in silhouette—but most are too kitschy for a serious business. Plan on using your own originals if you have access to a scanner or a digital camera. Print Office and the newest version of Publisher also include photo-editing software that lets you crop and sharpen images with relative ease, but PressWriter can make only the most basic changes.

Handy as they are, templates won't suit everyone. Jennifer Liu, general manager of the Bertram Inn in Brookline, Mass., complains they look "modern and corporate." She conveys the B&B's Victorian image by choosing her own fonts and importing photos of the inn for flyers and direct-mail pieces.

The last stage of self-publishing is printing—another chance to do it yourself. Color ink-jet printers in the \$300-to-\$500 range can now produce pages that, to an untrained eye, pass for a printer's job. But if it's a high-volume run or you want glossy paper, you'll have to send the project out. That's assuming, of course, you can find someone to take it. Some local print services are Mac-oriented and may be reluctant to accept a PC file. Others won't handle print jobs produced by anything other than the basic word-processing template or high-end page-layout program. That said, Publisher 98 does allow you to save a file in PostScript, a computer format favored by the graphics industry. Ideally, you'll be handing out the results within days. And if no one asks whether you did it yourself, consider it a compliment.

By Anthony Paonita in New York

Chat with desktop-publishing expert Roger Parker Jan. 24 at 9 p.m. EST, AOL keyword BWTalk

401(k) PLANS YOU CAN LEARN TO LOVE

New rules let you reward top talent—and still be fair to



Want to get more out of your 401(k) plan for yourself and key employees? Until this year, it was almost impossible, because of tough federal standards designed to protect the rights of your lower-paid workers. But new rules that took effect on Jan. 1 let you legally sidestep that barrier. The result could be a shower of extra benefits for entrepreneurs and their top managers.

Sound selfish? Not really. If you set up a new "safe-harbor" plan the right way, everyone in your company can come out ahead.

Offering better benefits is crucial for

attracting top talent in this tight market (Enterprise—Dec. 7). But companies have been hobbled by antidiscrimination tests required by the Internal Revenue Service. The form is fearfully complex, but in principle your plan will flunk the test if the lower-paid people don't participate or don't contribute enough. And you don't want to fail: The prescribed remedy is reducing or returning some of the 401(k) contributions of your top earners.

Unfortunately, nearly half of all 401(k) plans failed these tests in 1997, in part because low-paid workers can't afford to set very much money aside for

...ving drive and talent is one
...ng. But this is show business.
...ving clout is everything."

Vaughn Gill
Entertainment Lawyer
Small Business Services User

... music business, where who you are is as important as how you sound, Vaughn Gill helps artists
... ed. But when he started, only American Express Small Business Services helped him compete in an
... ry of giants. With the Card, he had spending clout. Now, one year later and several clients larger, he
... s the ongoing savings of our special small business
... nts with FedEx, Mobil and Hertz. Nice performance. *do more*



Small Business
Services

800-SUCCESS or visit www.americanexpress.com.

If you set up a new "safe-harbor" plan the right way, everyone in your company can come out ahead

ment. As a result, contributions from senior staffers typically are held to far less than the \$10,000 annual maximum.

What's more, running the tests can cost \$1,000 or more each year, not to mention the *agita*: "You test the plan all year, working yourself silly to make it come out right," says Joan H. Vines, a partner at tax accountants Grant Thornton in Washington. Perhaps that explains why only 30% of workers at small companies are covered by a 401(k) plan.

But now, two "safe-harbor" options let you dodge the tests. Under the first option—let's call it "the matching plan"—you must match employee contributions dollar for dollar on the first 3% of pay, plus 50¢ on the dollar for the next 2%. That's more than many 401(k) plans pay these days, and your employees must be vested immediately in the match instead of waiting for up to five years. The cost: Anywhere from nothing to 4% of payroll, depending on how much your workers participate.

The appeal of this option is obvious: Since many lower-paid workers can't afford to put money aside, they won't sign up—saving you lots of money. But think twice about such a cynical strategy. Federal rules require you to promote the plan to employees. If you guess too low about participation, you will blow a hole in your budget. Besides, squeezing your weakest employees to give yourself a raise could poison the atmosphere in your workplace.

PREDICTABLE. Far more appealing—and potentially lucrative—is the second safe-harbor option, which we'll call the 3% plan. You simply put aside 3% of pay for all eligible employees, regardless of whether they contribute. Clearly, workers who can't afford to save are better off with this plan, and so are you: Your budget is predictable. You are automatically exempt from the annual antidiscrimination tests plus an additional test that imposes more costs on your plan if more than 60% of total assets are held by the top brass. Then comes the kicker: Since you have adopted the 3% plan, you automatically become eligible to boost retirement-plan payments to older workers—a group that usually includes owners and key employees—using an existing method called cross-testing.

Cross-testing turns the idea of fairness on its head. Instead of focusing on

how much workers get now, it focuses on how much they will get when they retire. The goal: to make sure everyone's retirement payment is equal. Thus, you could set aside 3% of salary for a 35-year-old and 10% of salary for a 55-year-old if it would bring the same monthly benefit at 65. The upshot: Key employees can receive as much as \$30,000 or 25% of salary in total retirement contributions each year, whichever is less.

tants at Pioneer Group Inc. in Bo who dubbed it a DASH 401(k) plan double advantage safe harbor. there's nothing to prevent anyone setting up similar plans. As for signing up, you must give employees 30 notice about which safe-harbor option you have chosen for the coming year. 1999, though, you get a break: businesses have until Mar. 1 to notify workers, and until Dec. 31 to amend a plan. You can switch options each

Smoother Sailing

Here's how the new safe-harbor retirement plan stacks up against two existing alternatives. The table assumes you choose the 3% safe-harbor plan.

	REGULAR 401(K)	3% SAFE HARBOR	SIMPLE IRA
COMPANY SIZE	Any	Any	Up to 100 people
EMPLOYEE CONTRIBUTIONS	Up to \$10,000, capped at 25% of pay	Up to \$10,000, capped at 25% of pay	Up to \$6,000; no percent cap
EMPLOYER CONTRIBUTIONS*	Optional	3% for all workers	2% for all workers or 3% match
EXTRA PAYMENTS TO KEY STAFF	No	Yes	No
LOANS	Yes	Yes	No
FAIRNESS TESTING	Required	Exempt	Exempt

*Other terms apply

DATA: PIONEER GROUP, BUSINESS WEEK

What's more, company contributions aren't salary and are thus free of FICA and Medicare payroll taxes, notes Glenn Rossman of Buck Consultants Inc. in St. Louis. On top of all that, says Dennis Coleman of PricewaterhouseCoopers Kwasha, the 3% safe-harbor contribution helps you pass antidiscrimination tests if you also offer an old-fashioned, defined-benefit pension plan.

"This is a really exciting opportunity," says Marilyn R. Bergen of Capital Management Consulting, a Portland (Ore.) financial planner. She's considering a safe-harbor not just for clients but also for her own company. Currently, she says, her firm doesn't offer a 401(k) plan because preliminary surveys showed that lower-level employees wouldn't use it enough, drastically limiting benefits for the partners. The new rules, she says, can make the idea much more viable.

This safe-harbor/cross-testing combination was strung together by consul-

The price? After setup costs of \$1,000 and annual fees of \$1,000, the big expense is the immediate vesting. This means workers own the contribution immediately, regardless of how long they stick around after leaving. Instead of waiting for up to five years under current law.

But in practice, the difference is negligible if you already contribute 3% of payroll and your employees usually stay long enough to vest. For most small businesses, I don't think it's a significant issue in terms of dollars, says Wil Heupel, a principal at Advised Investors in Minneapolis. Instead, think of it this way: Here's a chance to do what you have to do anyway to attract good employees—and give them something extra to the ones you need.

By Lynn Brenner in New York

For more data on safe harbors, click Online Extras at enterprise.businessweek.com

playing for profits

ACCPAC® for Windows helped Toymax International, Inc. integrate financial reporting and boost productivity by 90%.



"ACCPAC is always re-inventing itself and pushing the frontiers of what really is going to be the accounting future."
—Jonathan Muir, Controller, Toymax International, Inc.

What will ACCPAC do for you?

From the Laser Challenge® game system to Spice Girls® figures, business can be fun. Just ask Toymax. Eight years into business, and with almost \$100 million in annual sales, Toymax relies on ACCPAC for Windows for its consolidated financial reporting across its ever-expanding global toy development empire.

With the help of New York-based Pyramid Consulting, Inc., Toymax found that migrating from a DOS-based financial management system to ACCPAC for Windows was child's play. And going public was simplified with ACCPAC for Windows multi-currency and multi-company capabilities. ACCPAC for Windows tight integration with Microsoft Excel resulted in sophisticated, automated financial reporting, easily established audit trails, and customized monthly AP accrual reports, improving productivity at Toymax by a dramatic 90%. And ACCPAC for Windows seamless integration with third party applications has, among other things, significantly helped Toymax save

money and time by tracking the cost of development and manufacturing.

Moving forward, ACCPAC for Windows Common Object Model (COM) support will enable users at Toymax to view and update data using tools such as Visual Basic for Applications (VBA) and MS-Query. And ACCPAC for Windows e.Business application, the e.Advantage Suite™, will make it even easier for customers and vendors to do business with Toymax on the Web in the future. This leads to further improved business processes and enhanced productivity. In fact, ACCPAC for Windows gives Toymax everything it needs to manage the entire financial information flow within the company.

Which leads to one playful, but important question:

What will ACCPAC for Windows do for you?

To find out, visit us at www.accpac.com, or call 1.800.808.7000.

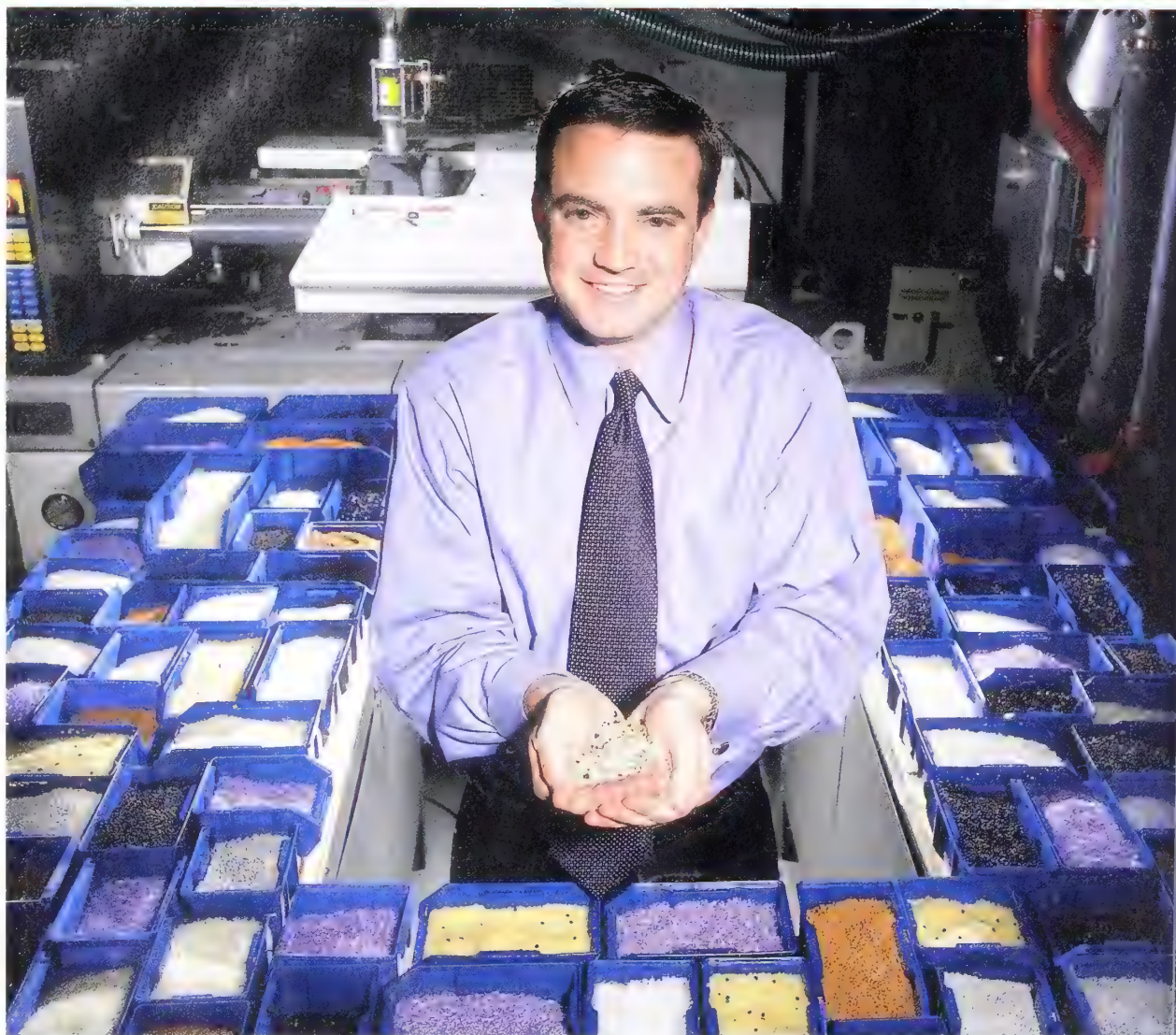
Don't Just Manage The Bottom Line...

Improve It!

ACCPAC
INTERNATIONAL



Toymax is a trademark of Toymax International, Inc. Visit Toymax at www.toymax.com.
Windows is a trademark of Microsoft Corporation. ©1999 ACCPAC INTERNATIONAL, INC. All Rights Reserved.



The plastics business was no more alluring for Bradley D. Berkley than for Dustin Hoffman's character in *The Graduate*. But that didn't stop the 28-year-old from building a specialty plastics company that has grown to \$10 million in sales and 100 employees in four years.

Berkley entered the industry as a sales rep while earning a University of Kansas business degree in 1992, and took a full-time job after graduation. At first, he says, "I hated plastics." He wasn't thrilled by his \$28,000 salary, either. But, he adds: "After about a year I started going, 'Wow, I see the potential here.'" With one startup under his belt—a food exporter called Intraco that he co-founded in 1993 and still co-owns—he went for another, establishing Global Tool & Engineering Inc. in October, 1994.

He started as a broker, finding suppliers for clients who needed customized products. By 1996, he was ready to

'I Just Want To Say One Word...'

AN ENTREPRENEUR LEARNS TO LOVE PLASTICS

While Global is little-known, its plastic parts are found in cell phones, baby monitors, and airline seats. Agility and speed, says Berkley, have won the company customers such as Motorola Inc. and 3M.

Berkley hopes to sell Global this year to a joint-venture partner, CMS Hartzell, a privately held Richmond (Ky.) manufacturer. Deal or not, he's planning his next start-up at a bank. Not like the one his grandfather founded and his father still runs in Downs, Kan. This will be an Internet venture—"plastics" for the graduate of the '90s.

By Wendy Zellner in Downs

make Carrollton (Tex.)-based Global a full-fledged manufacturer. With \$2 million from Agio Capital Partners I of Minneapolis, he expanded fast—indeed a bit too fast. Overcapacity and quality problems forced him to shed two of four plants in 1994, which restored profitability.



NORTON
AntiVirus™

NORTON
Utilities™

NORTON
CleanSweep™

NORTON
CrashGuard™

NORTON
Web Services™

One Suite Way to Gear Up for Top Performance.

Introducing Norton SystemWorks. Complete versions of the latest award-winning utilities for Windows® 95 and Windows® 98 from Symantec™ Corporation – now available for the first time ever in a single integrated suite. Geared to work together, they eliminate the confusion of choosing from all the different utilities on the shelf. Just shift up to Norton SystemWorks and you have everything you need.

The smartest way to keep your computer working. Norton SystemWorks protects, maintains, fixes and fine-tunes your system. Easily customized, you can choose whether you want Norton SystemWorks to run automatically in the background, or personalize it to suit the way you prefer to manage and maintain your system.

An incredible value. Along with complete versions of five award-winning utilities, Norton SystemWorks features a FREE Bonus Pack that includes Norton Mobile Essentials™, Visual Page™, WinFax™ Basic Edition, and pcANYWHERE™ Express. \$500 worth of software for just \$69.95! More than 30 million customers have relied on Norton products to protect their computers. And at this price, shouldn't you?

Gear up for top performance. Go to your local reseller to get five award-winning utilities plus a FREE bonus pack for one amazing price – just \$69.95!

*Manufacturer's suggested retail price.

SYMANTEC.

Symantec, the Symantec logo, Norton AntiVirus, Norton Utilities, pcANYWHERE, and WinFax are registered U.S. trademarks of Symantec Corporation. Norton, Norton SystemWorks, Norton CrashGuard, Norton Web Services, Norton Mobile Essentials, Norton CleanSweep, and Symantec Visual Page are trademarks of Symantec Corporation. Windows, and the Windows logo are registered trademarks of Microsoft Corporation. All other brand names are trademarks of their respective owners.

Who can help you manage the details of your dream?

You have goals for your business and for your life. But when you have a dream, it helps to have someone minding the details.

Talk to your American Express financial advisor. We can address a range of personal and business issues such as cash flow, tax planning, retirement planning, plus benefits for you and your employees. With the expertise and insight you need to make smarter decisions, you can take control of your future.

Do more for your business and for yourself. 1-800-GET-ADVICE. Own your world.

www.americanexpress.com/adv



**Financial
Advisors**

do more

EDITED BY ELLEN LICKING

HARTER PATH TO RT APPLIANCES

DON'T NOTICE THEM, they're everywhere: added controllers, the chips that run things from coffeers to carburetors. More than 4 billion are each year—15 times the number of computer chips from companies as Intel Corp. By analysts say, there will be more than 200 billion chips in every home.

The problem is, embedded chips are typically designed for each use, forcing manufacturers to build hundreds of vari-Product designers use the chips also. They must keep older controllers or awkwardly write software for new ones. But a technology to be unveiled in 2006 could change that—freeing designers to add new product features without throwing away what already

MicroThread processor from startup Ten Inc. in Sunnyvale, Calif., is the silicon element of a blank that can be taught to hundreds of different-bedded controllers or software instead of wired transistors. The chips written for old devices can be changed on a chip or inside the bread chip while features happily run. TeraGen has built up two big chips, which could lead to "arter" appliances at the end of the road.

TURNING A GOOEY MESS INTO GOBS OF CASH

EVERY YEAR, EGG-PROCESSING companies dispose of 120,000 tons of eggshells. But a discovery by food scientists at Penn State University promises to help companies cut that waste and make money in the process. Led by professor emeritus Joseph H. MacNeil, the team has found a way to detach the thin membranes lining the insides of eggs from the shells.



With the membranes attached, the shells are worth only \$20 a ton. But without them, the shells can be used as a pulp substitute by the paper industry and are worth 10 times as much. The membranes, which contain a pro-

tein called collagen, are even more valuable, potentially worth hundreds of dollars a gram, thanks to their medical applications.

MacNeil's patent-pending separation method employs a machine that contains razor-sharp blades to scrape the sticky membranes off the insides of the shells. Philadelphia-based Cutler Egg Products Inc. has licensed MacNeil's design to build a prototype that can process the shells on a commercial scale—roughly 15 tons of waste eggshells a day. □

INNOVATIONS

■ A Stanford University research team is using state-of-the-art technology to scan and digitize some of Michelangelo's greatest works of art, including *David* and *Moses*. The goal of the Digital Michelangelo Project is a comprehensive three-dimensional computer archive that captures details as fine as the artist's chisel marks. The team has a special scanner that employs laser beams to capture the images and then uses advanced mathematical equations to convert the digital data into some of the largest 3-D computer models ever generated—tens of gigabytes for *David* alone.



■ The "World Wide Wait"—delays caused by jammed Web sites and pages that either won't load or suddenly

disappear—may soon be shortened. Akamai Technologies Inc., founded by Massachusetts Institute of Technology mathematicians and business professionals, has created a new kind of network that lets users download more information faster and protects against crowds that cripple most other network servers. FreeFlow, the company's first product, uses high-powered algorithms to more precisely map the locations of their users and assign computers to serve them locally. One of FreeFlow's biggest advantages is that it won't crash during heavy user periods. Five of the world's most-visited Web sites are currently testing Akamai's new network.

CELLULAR DELIVERIES THAT HIT THE SPOT

WHEN SCIENTISTS LEARNED how to make antibodies that could home in on specific cells or tissues, the potential seemed vast. Attach a drug or an imaging agent—a compound doctors can track through the body—and one of these so-called monoclonal antibodies should be able to diagnose or treat diseases from cancers to bone infections. But

often, monoclonals prove too big and cumbersome to be useful, getting stuck in parts of the body where they shouldn't be. Now, Diatide Inc. in Londonderry, N. H., has devised a way to make peptides roughly 100 times smaller than the average monoclonal.

Because Diatide's peptides can seek out particular molecules on a cell's surface,

they can deliver the imaging agent to just the right spot. Last year, the Food & Drug Administration approved Diatide's first product, a peptide that zeroes in on blood clots in the leg so doctors can tell if they need immediate attention. Next, with FDA approval expected soon, is a similar product aimed at lung cancer, and then, perhaps, a drug-equipped peptide that treats disease. *John Carey*

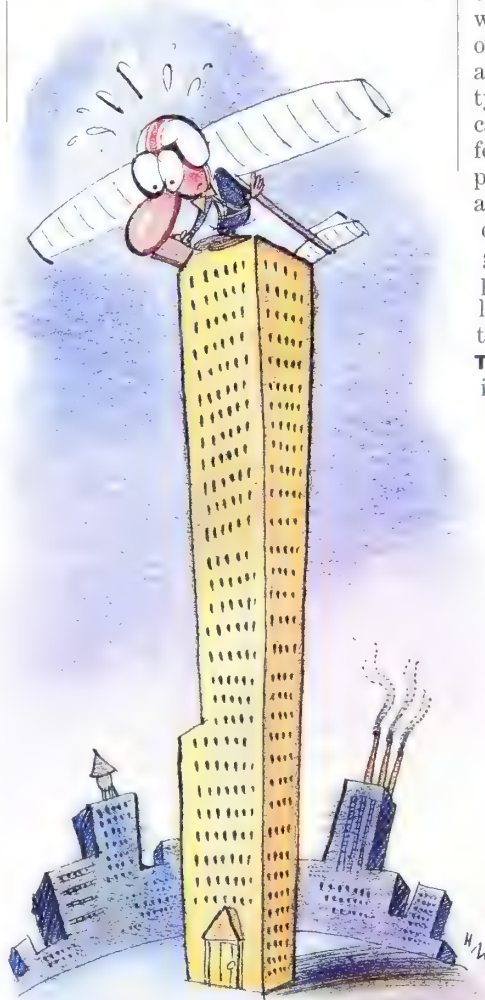
REVOLT OF THE EXECUTIVE CLASS

They're learning how to beat high fares and low service

The fourth quarter of 1998 should have been a glorious one for the airline industry. Fuel costs fell 18% for the year, saving carriers some \$2 billion. Debt is down, the resilient economy has kept planes fuller than ever, and fare wars seem a relic of days gone by.

Yet carrier after carrier spent the week of Jan. 18 preparing to announce fourth-quarter earnings declines—for a combined 36% industry fall, projects Salomon Smith Barney. Northwest Airlines suffered the most, with a quarterly loss of \$181 million, a hangover from its summer pilots' strike. Despite picking up Northwest's lost business, though, the other major airlines reported weak earnings. Delta Air Lines Inc.'s, for example, were up 2%, while at AMR Corp., parent of American, they were down 13%. And this year doesn't look any better. Salomon expects first-quarter pretax earnings to fall 25%. The stocks have been punished accordingly, down 20% since July even as the S&P 500-stock index has risen 7%. For airline executives, who have made a habit of boasting that they have overcome the industry's violent cyclical swings, it is a nasty sight indeed.

FARE FALL. What went wrong? The crisis in Asia continues to hurt, but the biggest problem was right here at home in the lucrative business-travel market. Though leisure travelers continued flying at roughly their usual pace, business travelers learned new ways around high-priced fares. By pushing up business fares far faster than inflation, the airlines have given Corporate America a huge incentive to find new ways to save. For the first time in two years, the average fare paid by American businesses actually dropped slightly in the fourth quarter. "Companies are fed up," says Eric J. Altschul, a corporate travel consultant, "and now more than ever, they are questioning what they can do."



Road warriors' new cost consciousness has hurt the big airlines' profits

That's not all—they're also taking action. Big companies sliced travel spending by 17%, according to the National Business Travel Assn. The result: The airline industry has been hit by a downturn even as the rest of the economy continues to grow.

Certainly, some of the cutback stems from the usual belt-tightening that comes when companies fear the economy may slow. But an equal share of the blame lies with the airlines themselves. Over the past three years, the cost of business travel has skyrocketed while the quality of service has deteriorated. The average published fare for an unrestricted one-way ticket—typically bought by Corporate America—climbed 31%, to \$461, over the four years, according to American Express Travel Related Services Co. At the end of last year did prices come off. Over the same period, air passengers have encountered more delays, planes, waited through longer airport lines, and been more likely to find themselves stuck in a center seat.

TAKE THE VAN. Now businesses are turning back—in surprising and innovative ways. They're using new technology to find the cheapest fares, installing videoconferencing units, and increasing frequency, even chartering their own planes. Companies are turning more often to alternative airports such as Oakland, Calif., or Detroit, Mich., or Providence where fares can be much cheaper. To avoid monopolistic fares, Black & Decker Corp. has started sending employees by van between its Towson (Md.) headquarters and a North Carolina plant 30 miles away for an annual savings of \$50,000. DaimlerChrysler and General Motors Corp. have taken the extraordinary step of underwriting an upstart airline to offer prices competitive on routes in and out of Detroit.

The airlines' problem isn't the number of people boarding planes. Instead, it's the newly aggressive steps that businesses are taking to avoid paying the highest fares. On average, corporate fliers now pay 60% the published unrestricted fare, according to American Express, down 74% in early 1996. Even airline executives, who remain bullish, admit to worry: "There's tremendous concern about what demand levels are going to be in 1999," says James E. Goetz, president of UAL Corp., United Airlines' parent company.

That said, don't look for any

Romeo & Cleopatra? Starsky & Gretel? Laurel & Juliet?

Good partners make a difference. Do you have a financial advisor?

Good financial advisors work with you, as well as for you. They can make sense of the thousands of mutual funds you have to choose from. And help you plan out a sound investment strategy for reaching your financial goals. Which is why, at Kemper Funds, we believe that one of the most valuable assets any investor has is a good financial partner.

If you'd like more information on the advantages of working with a financial advisor, please call 1-800-KEMPER5 for a free brochure from Kemper.

www.kemper.com



KEMPER FUNDS

Long-term investing in a short-term worldSM



For a prospectus on any Kemper Fund containing more information, including management fees and expenses, contact Kemper at the number above. Investors should carefully read the prospectus before investing or sending money. The Laurel name used under license from Larry Harmon Pictures Corporation. © 1999 Kemper Distributors, Inc. 1064320

The Corporation

culpas from the industry. Airline executives believe that globalization will keep demand for business travel strong—and deny that they overcharge for their services. “There has been a lot of brouhaha about the punitive nature of business travel costs that is just unfair,” says Frederick W. Reid, chief marketing officer for Delta. He says that providing corporate travelers with plenty of direct flights and the ability to make last-minute changes justifies the higher fares.

Still, fares have gone high enough to attract the attention of senior management for perhaps the first time. “It’s no longer just the travel manager who’s concerned about the high level of airfares. It’s the senior V-P of finance, it’s the comptroller, it’s the CEO,” says Norman R.

Sherlock, executive director of the NBTA, which represents 2000 companies that account for \$65 billion in annual travel spending. An executive at ConAgra Inc. found that out the hard way when he

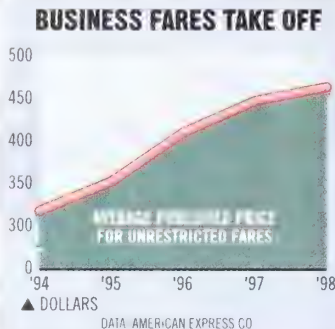
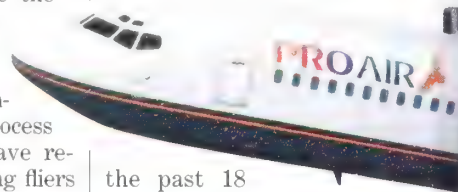
was chewed out during a conference call by CEO Bruce Rohde. His crime: buying a first-class seat to Paris. “I just bitched at everybody about it,” Rohde says.

A WEB OF SAVINGS. Ironically, many companies are beginning to use the same tactics airlines have long employed to squeeze every possible penny out of their customers. Call it reverse “yield management”—the flip side of the process

that airlines have refined for steering fliers into higher-fare seats. Desktop programs allow travel managers to search the Internet for bargain fares normally snapped up by leisure travelers. Companies have also learned to use convoluted fare structures to their advantage. Hewlett-Packard Co.,

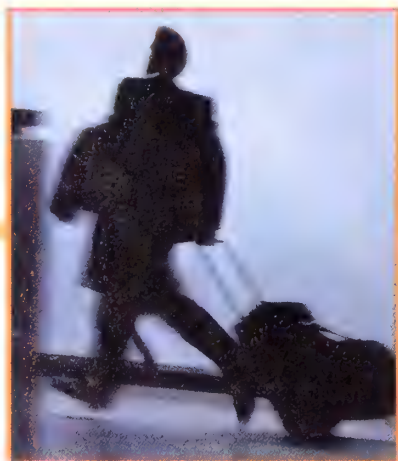
which has cut travel by 25% over the past six months, for a savings of \$100 million, recommends that employees sometimes buy advance tickets even when they aren’t sure if they’ll make a

trip—because on the whole, the penalties for cancellations is cheaper than buying last-minute tickets. Quaker Oats Co. has upped the average number of days before a ticket is bought from 10 to 15, for a savings of \$1 million



the past 18 months. It has lots of company: 62% of businesses say they are increasing their use of advance-purchase fares, according to the NBTA.

Then there’s videoconferencing, which has long been hailed as a potential substitute for travel. While many functions still require face-to-face contact, plenty of other tasks can be done via fiber-optic lines. Hewlett-Packard Chief Executive Officer Lewis E. Platt, for example, recently opted to skip a speech in Singapore and deliver it instead by real-time video. A March NBTA survey found that 52% of companies are using the technology—almost double the 1996 level.



Both of these men are traveling 2,000 miles.

Tired of scurrying through airports? Bleary-eyed meetings? Missing your family? On-net from MCI WorldCom has the answer. Global conferencing. We can provide everything you need for your meeting—audio, video, or NET conferencing or a combination of all three. We’ll even provide the latest video equipment. No matter

en when corporations do have to
ct business in person, they're find-
ew ways to avoid the commercial
rs. Outright ownership of a pri-
plane is still hard to justify on cost
but charters and fractional own-
may add little additional ex-
—and offer far more convenience.
umber of hours flown by char-
climbed 35% last year,
ding to the National
ransportation Assn.



Consult-
oup Inc., for example, often
s an eight-seat plane for \$3,000
s between Toronto and Boston,
an hour each way. With round-
es on a commercial carrier run-
00, it doesn't take many passen-
break even. Executive Jet Inc.,
ntvale (N.J.) company owned by
i E. Buffett's Berkshire Hath-
will sell companies as little as
h of a plane. Last year, it flew
hours, up from 95,000 in 1997.

All of these steps to cut corporate
travel costs can hurt the major air-
lines, but they are unlikely to rewrite
the rules for the nation's skyways. That
would take an influx of new competi-
tors—something the major carriers
may finally be more vulnerable to,
though starting an airline remains
immensely difficult. Already, dis-

FLIGHT OF THE UPSTART

Discount carrier Pro Air —with carmakers' help— is keeping competition alive in Detroit

count giant Southwest Air-
lines Co. has increased its market share
by 44% in the past five years, according
to GKM Consulting Services, and it
will soon enter the metropolitan New
York area.

Meanwhile, Midwest Express—the
full-price Milwaukee carrier that caters
to business travelers with wide all-
leather seats and cookies that are fresh-
ly baked on board—saw profits rise
about 40% last year, according to ana-
lyst's estimates. And in Detroit, 18-
month-old Pro Air Inc. is being under-
written by DaimlerChrysler and GM,

which are eager to keep fares competi-
tive in a city dominated by Northwest.
In January, Pro Air starts service to
New York.

THE FEDS STEP IN. The government may
soon make it easier for upstarts, most of
which have struggled mightily in the
'90s. Measures that industry critics have
long pushed are finally getting atten-
tion from a group of bipartisan heavy-
weights, including Vice-President Al
Gore and Senate Commerce Committee
Chairman John McCain (R-Ariz.). They
worry that the major airlines no longer
compete with each other in many mar-
kets and have effectively chased new-
comers off their routes. After President
Clinton's impeachment trial, Congress
and the Administration will mull an ar-
ray of steps aimed at spurring competi-
tion and defining predatory behavior.

There's little doubt that the market
could handle more competition. Of the
nation's 1,000 most traveled routes, 500
lack low-fare service, the Transporta-
tion Dept. says. That's created a lot of
unhappy business travelers eager to
pursue alternatives. If their dissatisfac-
tion causes them to step up their ef-
forts, the airline industry's future could
be as unpleasant as standing in line at
the airport.

*By David Leonhardt in Chicago, with
bureau reports*

eting. Which one would you rather be?



MCI WORLD COM

your needs, we can handle it. And if there's ever a concern, we have people ready to assist you, 24/7.
re-ang the way the world meets. So you can get where you have to go. Without ever really having to... go.
age. Introducing MCI WorldCom On-Net. For details, visit mciworldcom.com or call 1-800-475-3555.

THE BEST MUTUAL FUND

You would think that mutual-fund shareholders should be all smiles these days. After all, the stock market was really fired up last year, with the total return on the Standard & Poor's 500-stock index coming in at a blistering 28.6%.

Well, maybe shareholders should be thinking about firing their fund managers. Look at the average mutual fund, and you'll wonder what these highly paid specialists were doing with the money. U.S. diversified equity funds managed to muster an average total return of only 14.1%. Count in the international and specialized portfolios, and the return drops to 11.4%. And last year was no exception: The funds have trailed the S&P 500 in each of the last five years.

Of course, shareholders can't fire a manager, but they can fire a fund by pulling their money out. With such

Special Report

lackluster performance throughout the \$5.4 trillion industry, investors need to put their funds under a microscope to make sure that they're getting the most for their money. Is there a legitimate reason for a fund's lagging performance, or did the manager make some bad calls? And even if the return was acceptable, did the manager expose you to higher levels of risk than you might have been comfortable with? In an era of high valuations and jittery markets, risk matters.

That's how BUSINESS WEEK's annual Mutual Fund Scoreboard can help you. The highlight of the Scoreboard is the BUSINESS WEEK ratings, which incorporate both how a fund adds to your wealth and how much risk a fund manager took on to do it. These ratings start with a fund's five-year performance, a point where many other performance ratings also end. But our system then adjusts the returns for

Which equity funds give investors the most for their money? Our Scoreboard gives you the lowdown

downside volatility—we're assuming you're not upset if funds go up—and re-ranks the funds. The top 7.5% of funds earn A's for superior risk-adjusted total returns. Last year, 104 funds earned the top grade out of nearly 1,400 equity funds with five years' history, the minimum track record required for a rating. (Next week, we rate bond funds.) Scoreboard data are prepared by Morningstar Inc.

RETURN FOR RISK. The A-list is a wide-ranging lot, with Legg Mason Value Primary Shares, up an astounding 37% year over the last five, down to the plodding but safe Fidelity Asset Manager: Income, with just a 9% average annual return. What they all have in common is a superior return for the amount of risk they took. Smack in the middle of the list is MFS Massachusetts Investors Trust A, with a year total return over the last five. The fund, now \$6.7 billion in three classes of shares, opened for business in July, 1924. Lead portfolio manager John D. Laupheimer, who has run the fund since 1993, describes it as a "conservative growth" portfolio looking to invest in blue-chip growth stocks "at the right price." He scored well on last year buying shares of IBM at prices under



each. It's now \$192, and is one of his largest holdings.

Large-cap funds, mainly those that invest in large growth stocks, dominate the A-list. That shouldn't be surprising, as large caps have trounced mid-cap and smaller-cap companies every year for the last five years. And growth funds, which emphasize companies with more reliable and sustainable earnings growth, have prevailed over value funds, which often buy more cyclical companies when they are out of favor and bet on the rebound. Domestic hybrid funds, which are conservatively run mixes of mainly large-cap stocks, bonds, and sometimes cash, are also well represented on the list. In four of the last five years, the bonds added some stability during volatile stock market swings and capital appreciation as interest rates moved downward.

Few mid-cap and small-cap funds made it to the A-list, and not one international fund. Overseas markets in general have underperformed the U.S. every year since 1993. Still, investors need to diversify away from large caps. That's why we also rate funds against others in their category (page 76). Looking for a small-cap growth fund with superior risk-return characteristics? Check out Baron Asset or Fasciano Funds. Want to globalize your portfolio? BT International

Special Report

THE BEST MUTUAL FUNDS

Investment Equity and Fidelity Diversified International stand out among the foreign funds, and Dreyfus Premier Worldwide Growth B and Janus Worldwide shine among the world equity funds. (The difference between world and foreign? World includes U.S. stocks, foreign doesn't.)

TURNOVER TALLY. The Scoreboard is a comprehensive guide to fund performance and analysis. In the Scoreboard, which starts on page 86, we have data on 885 funds with assets of at least \$200 million. Those, plus 1,833 smaller funds, can be found in an interactive version of our Scoreboard at our Web site, www.businessweek.com. Even better, that online scoreboard is updated monthly. That allows you to keep bet-

ter watch on how your funds are faring. This Special Report also looks at the flourishing mutual-fund "supermarket" by the likes of Charles Schwab, Fidelity Investments, now even the Vanguard Group, and how they can simplify buying, selling, and managing funds (page 80).



“We’re . . . just looking for an S&P-like return with a little extra”

HARINDRA DE SILVA
*Analytic Enhanced
Equity Portfolio*

Our Scoreboard examines total return, both before and after taxes. It highlights sales charges and expenses, both of which cut into your returns. It peeks inside fund portfolios, reporting on percentage of the assets parked in cash, stocks' price-earnings ratios, and the untaxed gains that are locked inside and could be passed on to you. It also tracks "turnover," the relative frequency with which the manager trades the securities. High turnover can often lead to higher costs but not necessarily higher returns.

Before you can evaluate how your funds performed, you have to look at the markets they invest in. Although large-cap stocks have been outpacing the mid- and small-cap for years, in 1998 the disparity intensified. Stocks with market capitalizations above \$20 billion were up nearly 10% last year, according to Salomon Smith Barney. But stocks in the next tier, \$5 billion to \$20 billion, were up only 6.2%, while the \$2 billion to \$5 billion stocks were down 6.1%.

the \$2 billion to \$5 billion stocks were down 6.1%.

The A-List

These equity mutual funds have earned A's for delivering the best risk-adjusted total returns over the past five years

FUND	AVERAGE ANNUAL TOTAL RETURN*	INVESTMENT CATEGORY	RISK	FUND	AVERAGE ANNUAL TOTAL RETURN*	INVESTMENT CATEGORY
ACCESSOR GROWTH**	26.7%	Large-cap Growth	Low	FIDELITY	23.1%	Large-cap Blend
AMERICAN CENT. EQUITY GROWTH INV.	23.9	Large-cap Value	Low	FIDELITY GROWTH & INCOME	22.7	Large-cap Blend
AMERICAN CENT. INCOME & GROWTH INV.	23.7	Large-cap Value	Low	FIDELITY SELECT HEALTH CARE	30.5	Health
ANALYTIC DEFENSIVE EQUITY**	17.2	Large-cap Blend	Very low	FIDELITY SPARTAN MARKET INDEX	23.7	Large-cap Blend
ANALYTIC ENHANCED EQUITY**	24.3	Large-cap Blend	Low	FIRST AMERICAN BALANCED A**	14.2	Domestic Hybrid
ATLAS BALANCED A**	13.9	Domestic Hybrid	Very low	FIRST AMERICAN EQUITY-INCOME A**	17.6	Large-cap Value
BT INVESTMENT EQUITY 500 INDEX	23.9	Large-cap Blend	Low	FIRST FUNDS GROWTH & INCOME III**	22.1	Large-cap Blend
BT INVESTMENT LIFECYCLE LONG-RANGE**	15.6	Domestic Hybrid	Very low	FLAG INVESTORS COMMUNICATIONS A	29.2	Communications
BT INVESTMENT LIFECYCLE MID-RANGE**	12.2	Domestic Hybrid	Very low	FLAG INVESTORS VALUE BUILDER A	19.1	Domestic Hybrid
CALDWELL & ORKIN MKT. OPPORTUNITY	18.4	Domestic Hybrid	Very low	FOUNDERS BALANCED	15.0	Domestic Hybrid
CALIFORNIA INVESTMENT S&P 500 INDEX**	23.8	Large-cap Blend	Low	GABELLI ABC**	9.4	Small-cap Growth
CHASE VISTA BALANCED A**	14.9	Domestic Hybrid	Very low	GABELLI EQUITY-INCOME	18.7	Large-cap Value
CHICAGO TRUST GROWTH & INCOME	24.0	Large-cap Growth	Average	GABELLI WESTWOOD BALANCED RETAIL**	16.2	Domestic Hybrid
CLIPPER	21.3	Large-cap Value	Low	GABELLI WESTWOOD EQUITY RETAIL**	21.1	Large-cap Blend
COLUMBIA BALANCED	14.8	Domestic Hybrid	Very low	GALAXY ASSET ALLOCATION RETAIL A	15.6	Domestic Hybrid
COLUMBIA COMMON STOCK	20.6	Large-cap Blend	Low	GALAXY II LARGE CO. INDEX RETAIL	23.6	Large-cap Blend
DELAWARE DEVON A**	23.7	Large-cap Blend	Low	GAM NORTH AMERICA A**	22.9	Large-cap Growth
DOMINI SOCIAL EQUITY	24.3	Large-cap Blend	Low	GATEWAY	10.3	Domestic Hybrid
DREYFUS APPRECIATION	24.6	Large-cap Growth	Low	HILLIARD LYONS GROWTH A**	20.8	Large-cap Value
DREYFUS S&P 500 INDEX	23.4	Large-cap Blend	Low	HOTCHKIS & WILEY BALANCED**	11.5	Domestic Hybrid
EASTCLIFF TOTAL RETURN**	21.3	Domestic Hybrid	Low	INCOME FUND OF AMERICA	14.2	Domestic Hybrid
FIDELITY ASSET MANAGER: INCOME	9.0	Domestic Hybrid	Very low	INVESCO BALANCED	19.3	Domestic Hybrid
FIDELITY DESTINY I	22.8	Large-cap Value	Low	INVESCO TOTAL RETURN	16.2	Domestic Hybrid
FIDELITY DIVIDEND GROWTH	26.5	Large-cap Blend	Low	ISG LARGE CAP EQUITY A	24.8	Large-cap Growth

*1994-98 pretax returns, appreciation plus reinvestment of dividends and capital gains

**Fund data in Business Week Online

DATA

smallest, those below \$250 million, dropped 24.1%. In that backdrop, many mid- and small-cap fund managers did yeoman work. "This year especially, you have to your funds against those in their category," says Rus-
 nnel, equity editor for *Morningstar Mutual Funds*.
 nked Royce Total Return, for instance, earned a paltry
 ast year, which sounds lousy. But it's nearly 11 per-
 e points better than the average small-cap value fund
 page 78).

IG HAND. Even funds that traffic mainly in S&P 500
 were not assured of success. Microsoft, General Elec-
 /al-Mart Stores, and 17 other stocks accounted for
 60% of the S&P's return. "There were 15 or 20 big
 last year, and if you didn't own them, you were out of
 nning," says Parker Hall, chief executive officer of
 o-based Lincoln Capital Management Co. and portfolio
 er of the A-rated Vanguard U.S. Growth Fund. For-
 y for his shareholders, he owned enough of the right
 to earn a 40% total return last year, beating the S&P
 the average large-cap growth fund. Another portfolio
 er who held a winning hand was Robert E. Stansky:
 ted the giant Fidelity Magellan to its best performance
 995 and the best showing vs. the S&P 500 since 1993
 4). Even with a star turn in 1998, Magellan's overall
 s still just C, or average.

dominance of large-cap stocks has worked to the ad-
 e of many fund shareholders. The really large funds
 ndreds of thousands of shareholders invest mainly in
 up stocks—they have to, in order to put their billions
 —and they have earned good returns (table, page 78).
 s made it easier for giant management companies such
 lity to deliver the goods to their millions of investors.
 n is closed to new shareholders, as is top-rated Fi-
 growth & Income Portfolio. But the company offers
 ertatives, like Fidelity Dividend Growth Fund and
 e venerable Fidelity Fund, the company's original
 which dates back to 1930. Charles Mangum, who took
 vidend Growth two years ago, scored a 36.7% re-



**“You end up
 with companies
 that have
 more visionary
 managements”**

AMY DOMINI

Domini Social Equity Fund

turn last year, with a cautious 10% weighting in technology. "Technology's fundamentals are great, but the relative valuations are very high," he says. Mangum, who has run two health-care funds for Fidelity, feels more comfortable with health-care companies and has about 20% of the fund devoted to those stocks. "Many are trading at near-market [price-earnings] multiples with good revenue growth."

Still, for all the time put into analyzing companies and managing portfolios, why does the S&P 500 seem almost unbeatable? Part of the reason is the narrowness of the market's advance, concentrated in relatively few stocks. Another part is that the index funds invest every dollar every day, an advantage when stocks are generally rising. Managed funds keep some cash for redemptions—or until managers can find a place for it. Another reason for the index funds' strong returns lies in the construction of portfolios. The S&P is cap-weighted, so the movements of the bigger stocks weigh more heavily in the index' returns. Most managed portfolios are equal-weighted, and boy, that does make a difference. If you calculate 1998's S&P return giving equal weight to each of the 500 stocks, the gain would have been less than half as much.

Mutual funds, by and large, try to own more equal amounts

	AVERAGE ANNUAL TOTAL RETURN*	INVESTMENT CATEGORY	RISK	FUND	AVERAGE ANNUAL TOTAL RETURN*	INVESTMENT CATEGORY	RISK
SED	18.6%	Domestic Hybrid	Very low	RIGHTTIME BLUE CHIP	15.3%	Large-cap Blend	Very low
8 INCOME INVESTMENT**	20.6	Large-cap Value	Low	RIGHTTIME MIDCAP**	15.1	Mid-cap Blend	Very low
UITY INVESTMENT**	23.1	Large-cap Blend	Low	RIGHTTIME SOCIAL AWARENESS**	17.1	Large-cap Blend	Very low
VALUE PRIMARY SHARES	32.0	Large-cap Value	Average	ROYCE TOTAL RETURN	16.7	Small-cap Value	Very low
TNERS	19.8	Mid-cap Blend	Low	SAFECO EQUITY NO LOAD	21.7	Large-cap Blend	Low
TNERS SMALL-CAP	18.5	Small-cap Value	Very low	SEI INDEX S&P 500 INDEX E	23.8	Large-cap Blend	Low
R BALANCED**	17.1	Domestic Hybrid	Very low	SEQUOIA	28.1	Large-cap Value	Average
	21.9	Mid-cap Blend	Very low	SMITH BREEDEN US EQUITY MKT. PLUS**	23.7	Large-cap Blend	Low
	9.6	Domestic Hybrid	Very low	SSGA GROWTH & INCOME	23.6	Large-cap Blend	Average
OWTH & INCOME**	13.0	Large-cap Blend	Very low	SSGA S&P 500 INDEX	23.8	Large-cap Blend	Low
ESTORS TRUST A	23.0	Large-cap Blend	Low	STEIN ROE GROWTH & INCOME	18.9	Large-cap Blend	Low
VERSIFIED	15.1	Domestic Hybrid	Very low	STRATTON GROWTH**	20.6	Large-cap Value	Low
BALANCED	15.6	Domestic Hybrid	Very low	TORRAY	24.2	Large-cap Value	Average
500 A	23.5	Large-cap Blend	Low	TWEEDY, BROWNE AMERICAN VALUE	20.3	Mid-cap Value	Low
	24.1	Large-cap Blend	Low	VALUE LINE ASSET ALLOCATION	22.1	Domestic Hybrid	Low
WEST BALANCED VALUE A	20.8	Domestic Hybrid	Low	VANGUARD ASSET ALLOCATION	19.6	Domestic Hybrid	Very low
ABROAD	24.9	Large-cap Growth	Average	VANGUARD BALANCED INDEX	15.8	Domestic Hybrid	Very low
	17.9	Domestic Hybrid	Very low	VANGUARD EQUITY-INCOME	19.6	Large-cap Value	Low
TY INDEX A	23.7	Large-cap Blend	Low	VANGUARD 500 INDEX	24.0	Large-cap Blend	Low
LARGE CAP EQ. CON. SV.**	22.4	Large-cap Blend	Low	VANGUARD GROWTH INDEX	27.8	Large-cap Growth	Low
PLUS INSTITUTIONAL	24.9	Large-cap Blend	Low	VANGUARD HEALTH CARE	28.4	Health	Low
SET ALLOCATION	18.0	Domestic Hybrid	Very low	VANGUARD U.S. GROWTH	26.2	Large-cap Growth	Low
BLUE CHIP GROWTH	23.9	Large-cap Blend	Low	VANGUARD WELLESLEY INCOME	12.6	Domestic Hybrid	Very low
CAPITAL APPRECIATION	12.8	Domestic Hybrid	Very low	VONTOBEL U.S. VALUE**	21.3	Large-cap Value	Low
DIVIDEND GROWTH	20.5	Large-cap Blend	Very low	WASHINGTON MUTUAL INVESTORS	22.1	Large-cap Value	Low
EQUITY INDEX	23.7	Large-cap Blend	Low	WEITZ PARTNERS VALUE	22.2	Mid-cap Value	Low
EQUITY-INCOME	19.9	Large-cap Blend	Very low	WEITZ VALUE	21.6	Mid-cap Value	Low
TH INVESTMENT**	22.5	Large-cap Growth	Low	WILSHIRE TARGET LGE. CO. GROWTH INV.**	26.7	Large-cap Growth	Low

of each stock. That means selling shares in winners as they climb, lest they become too large as part of the entire portfolio. Most diversified funds keep their largest holdings well below 10%. "By trimming back larger positions, you're controlling risk," says William N. Goetzmann, director of the International Center for Finance at the Yale School of Management. "An equal-weighted portfolio is probably a better diversified portfolio."

Special Report

THE BEST MUTUAL FUNDS

for their stocks—and sell when they hit them. But that discipline doesn't work well in a runaway market. "We used to think our sell discipline gave us an advantage," says Samuel C. Harvey of the A-rated Hilliard Lyons Growth Fund A. "But many stocks we've regretted selling even at a good profit, and it's hard to find new ones to buy."

For sure, in the realm of tech stocks at least, holding on has been a rewarding strategy. Look at Legg Mason Value, up 48%

And as part of their discipline, many managers set price targets

last year. The fund acquired America Online and Dell Corp. several years ago at a mere fraction of today's price. AOL makes up 14.7% of the \$6.4 billion portfolio, and Dell 8.7%. "We have to hand it to [manager] Bill Miller for seeing the there and having the prescience to keep them," says Brouwer of Brouwer & Janachowski, an investment adviser firm that puts its clients' money in funds. But Brouwer is loath to buy that fund now, since its net asset valueaporates today's high market prices for the AOL and Dell. Scoreboard notes each fund's largest holding and the percentage of assets that it commands.)

TAX TIPS. Concentrated holdings in the right stocks help you don't have to do that to earn a good return. Consider the Analytic Enhanced Equity Portfolio. Since October, 1999, the fund has followed a stock-selection system called S&P 500 Stocks, developed by Robert A. Haugen, a finance professor at the Graduate School of Management at the University of California at Irvine. Drawing from the S&P 500, this system attempts to build a portfolio with traits that you can't find in any one stock: high growth rate, high return, and low risk.

The Best Performers in Their Categories

Ratings funds against their peers, these funds earn A's for five-year risk-adjusted total returns. Not all categories have ratings since some lack enough funds to perform a ratings review.

AVERAGE ANNUAL TOTAL RETURN*	AVERAGE ANNUAL TOTAL RETURN*	AVERAGE ANNUAL TOTAL RETURN*
LARGE-CAP VALUE	WEITZ VALUE	PAX WORLD
AMERICAN CENT. EQUITY GROWTH INV. 23.9%		PREFERRED ASSET ALLOCATION 18
AMERICAN CENT. INCOME & GROWTH INV. 23.7	MID-CAP BLEND	T. ROWE PRICE CAPITAL APPRECIATION 12
CLIPPER 21.3	LONGLEAF PARTNERS 19.8	VALUE LINE ASSET ALLOCATION 22
FIRST AMERICAN EQUITY-INCOME A** 17.6	MAIRS & POWER GROWTH 22.9	VANGUARD ASSET ALLOCATION 19
LEGG MASON VALUE PRIMARY SHARES 32.0	MAP-EQUITY** 21.9	INTERNATIONAL HYBRID
T. ROWE PRICE EQUITY-INCOME 18.8	OAK VALUE 21.8	MFS GLOBAL TOTAL RETURN A 12
SEQUOIA 28.1	RIGHTTIME MIDCAP** 15.1	FOREIGN
VANGUARD EQUITY-INCOME 19.6	MID-CAP GROWTH	BT INVESTMENT INTERNATIONAL EQUITY 18
VONTOBEL U.S. VALUE** 21.3	WILLIAM BLAIR GROWTH 19.9	EUROPACIFIC GROWTH 17
WASHINGTON MUTUAL INVESTORS 22.1	EXCELSIOR INCOME & GROWTH 12.8	FIDELITY DIVERSIFIED INTERNATIONAL 13
LARGE-CAP BLEND	FRANKLIN CALIFORNIA GROWTH A 23.5	MANAGERS INTERNATIONAL EQUITY 17
ANALYTIC DEFENSIVE EQUITY** 17.2	NICHOLAS II 18.3	SOGEN OVERSEAS A 7
ANALYTIC ENHANCED EQUITY** 24.3	T. ROWE PRICE MID-CAP GROWTH 20.6	UMB SCOUT WORLDWIDE 14
BT INVESTMENT EQUITY 500 INDEX 23.9	STRONG GROWTH 24.5	WADDELL & REED INTERNATIONAL GROWTH B 14
DELAWARE DEVON A** 23.7	WADDELL & REED GROWTH B 21.7	WORLD
DOMINI SOCIAL EQUITY 24.3	SMALL-CAP VALUE	CAPITAL WORLD GROWTH & INCOME 17
FIDELITY DIVIDEND GROWTH 26.5	FAM VALUE 16.0	DREYFUS PREMIER WORLDWIDE GROWTH B 19
FIDELITY GROWTH & INCOME 22.7	LONGLEAF PARTNERS SMALL-CAP 18.5	JANUS WORLDWIDE 18
HILLIARD LYONS GROWTH A** 20.8	ROYCE TOTAL RETURN 16.7	MUTUAL DISCOVERY Z 18
NATIONWIDE D 24.1	SMALL-CAP BLEND	DIVERSIFIED PACIFIC/ASIA
PIMCO STOCKSPUS INSTITUTIONAL 24.9	GABELLI SMALL CAP GROWTH 13.2	MERRILL LYNCH PACIFIC B 7
T. ROWE PRICE BLUE CHIP GROWTH 23.9	WASATCH GROWTH 16.8	EUROPE
T. ROWE PRICE DIVIDEND GROWTH 20.5	WEITZ HICKORY 23.8	WRIGHT EQUIFUND-NETHERLANDS 27
RIGHTTIME BLUE CHIP 15.3	SMALL-CAP GROWTH	NATURAL RESOURCES
RIGHTTIME SOCIAL AWARENESS** 17.1	BARON ASSET 19.9	AMERICAN GAS INDEX 17
VANGUARD 500 INDEX 24.0	FASCIANO 17.5	PRECIOUS METALS
LARGE-CAP GROWTH	GABELLI ABC** 9.4	SOGEN GOLD A -1
ACCESSOR GROWTH** 26.7	GALAXY SMALL CAP VALUE RETAIL A 15.7	TECHNOLOGY
DREYFUS APPRECIATION 24.6	NICHOLAS LIMITED EDITION 15.8	FRANKLIN DYNATECH A 27
ISG LARGE CAP EQUITY A 24.8	DOMESTIC HYBRID	UNALIGNED
PAPP AMERICA-ABROAD 24.9	CALDWELL & ORKIN MARKET OPPORT. 18.4	FIDELITY SELECT FOOD & AGRICULTURE 19
VANGUARD GROWTH INDEX 27.8	COLUMBIA BALANCED 14.8	UTILITIES
VANGUARD U.S. GROWTH 26.2	EASTCLIFF TOTAL RETURN** 21.3	MFS UTILITIES B 19
WILSHIRE TARGET LARGE CO. GROWTH INV.** 26.7	GABELLI WESTWOOD BALANCED RETAIL** 16.2	UAM SAMI PREFERRED STOCK INCOME 19
MID-CAP VALUE	INVESCO BALANCED 19.3	
SOUND SHORE 19.8	JANUS BALANCED 18.6	
TWEEDY, BROWNE AMERICAN VALUE 20.3	MAIRS & POWER BALANCED 17.1	
WEITZ PARTNERS VALUE 22.2	MERGER 9.6	

*1994-98 pretax returns, appreciation plus reinvestment of dividends and capital gains

**Fund data in Business Week Online

DATA: MORNINGST

An 8.2 pound projector from Sony.

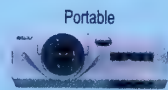
Act surprised.

Okay, so Sony's been putting good things in small packages since the Walkman® personal audio player some 20 years ago. But the Ultra Personal™ projector is getting people to do more than just listen. With 600 ANSI lumens of brightness and XGA resolution, this lightweight projector makes one of the most brilliant images to ever hit the road. Which means the Ultra Personal projector is as impressive on screen as it does in the overhead bin. So you can make a little history of your own.

Ultra Personal VPL-XC50U / VPL-SC50U



FREE CD-ROM OFFER — For more information and your free CD-ROM on Building a Better Presentation, call 1-800-472-7669, ext. XC50. www.sony.com/displaysystems



Portable
VPL-X1000U / VPL-S900U



Installation
VPL-X2000U

Ultra Personal
VPL-XC50U / VPL-SC50U
8.2 pounds
600 / 500 ANSI lumens
XGA / SVGA resolution

Innovation at work.™

SONY

Reproduction in whole or part without written permission is prohibited. All rights reserved. Sony Innovation at Work. Walkman and the 3-year warranty logo are trademarks of Sony. Features and specifications are subject to change without notice. See actual warranty for details of the 3-year warranty.

risk. "We're disciplined," says portfolio manager Harindra de Silva. "We rebalance the portfolio monthly and have a 2% maximum for any holding." O.K., he'll let giants like Microsoft and General Electric go up to 3%. "We're not making big bets but just looking for an S&P-like return, with a little extra." Since adopting SuperStocks, de Silva says the fund has earned a 6% annualized return over the S&P.

If you're undecided about index funds, you might choose them at least for taxable accounts. Index funds are among the most "tax-efficient" investors. They don't actively trade the stocks in their portfolios, so they rarely make capital-gains distributions. And with dividend yields so low, income distributions are minimal. Even fewer funds beat indexers after taxes than before taxes. Only 56 equity funds in our Scoreboard beat the S&P 500 pretax over the past five years; just 36 did it after taxes.

If you're shopping for index funds, you'll find them in the Scoreboard—and 10 pure S&P 500 funds make the A-list. For

Special Report

THE BEST MUTUAL FUNDS

a plain-vanilla S&P fund, buy the one with the lowest expense ratio. But not all index funds are S&P 500 plays. Vanguard Growth Index is an index of the growth half of the S&P; Wilshire Target Large Company Growth Portfolio buys the large-cap growth stocks in the Wilshire 5000 index.

Domini Social Equity Fund tracks the Domini Social Index, which onetime stockbroker Amy Domini says she started in 1990 to test the hypothesis that "social investing leads to low-

The Largest Funds

Here's how BUSINESSWEEK rates the largest equity funds.

FUND	ASSETS BILLIONS	OVERALL RATING	AVG. ANNUAL TOTAL RETURN*	INVESTMENT CATEGORY	CATEGORY RATING
FIDELITY MAGELLAN	\$83.6	C	20.5%	Large-cap Blend	C-
VANGUARD INDEX 500	74.2	A	24.0	Large-cap Blend	A
WASHINGTON MUTUAL INV.	51.8	A	22.1	Large-cap Value	A
FIDELITY GROWTH & INCOME	48.6	A	22.7	Large-cap Blend	A
INVESTMENT CO. OF AMERICA	48.5	B+	20.0	Large-cap Blend	B
FIDELITY CONTRAFUND	38.8	B+	21.6	Large-cap Blend	C
VANGUARD/WINDSOR II	31.5	B+	21.3	Large-cap Value	B+
AM. CENT.-20TH C. ULTRA INV.	27.2	C-	20.1	Large-cap Growth	D
VANGUARD/WELLINGTON	25.8	B+	16.2	Domestic Hybrid	B
FIDELITY PURITAN	25.7	B+	15.2	Domestic Hybrid	B
JANUS	25.5	B+	21.2	Large-cap Blend	B+
FIDELITY ADV. GROWTH OPP.	20.8	B+	20.8	Large-cap Value	B+
FIDELITY EQUITY-INCOME	23.7	B	18.5	Large-cap Value	C
INCOME FUND OF AMERICA	22.9	A	14.2	Domestic Hybrid	B+
NEW PERSPECTIVE	21.3	B	16.5	World	B+
EUROPACIFIC GROWTH	20.8	C	11.3	Foreign	A
PUTNAM GROWTH & INCOME A	20.3	B	18.9	Large-cap Value	C
FIDELITY BLUE CHIP GROWTH	19.9	B+	22.7	Large-cap Blend	B
FIDELITY EQUITY-INCOME II	19.5	B+	19.3	Large-cap Value	B
MSDW DIVIDEND GR. SECS. B	18.5	B+	18.2	Large-cap Blend	C

*1994-98 pretax returns, including appreciation plus reinvestment of dividends and capital gains

DATA: MORNINGSTAR INC

er returns." She starts with the S&P 500 and includes alcohol, tobacco, and gaming stocks, as well as arms makers and polluters. But Domini says she also judges companies on positive criteria—like diversity management and corporate philanthropy. If you follow our advice, you end up with companies that have missionary managers, says Domini. Her methods lead her toward investing in high-tech, less in what she calls "rustbucket industries." The fund earned an average 24.3% vs. the S&P 500, over the five years.

Looking into many pros suggest the laggard fund the theory that catch up. Beth T. who runs the

Fund, is not so sure. While she acknowledges the highly wide valuation gap between large- and small-cap stocks, she says many smaller companies will continue to struggle. "The power of scale has grown increasingly important," she says.

Perhaps. The best bet is to stick to your asset-allocation plan and be sure you own the best available funds in categories that are appropriate for your portfolio, which include small-cap funds. That's just what our Scoreboard designed to help you do.

By Jeffrey M. Laderman in New York, with C. Smith in Boston

BusinessWeek ONLINE

A greatly expanded, interactive version of this Scoreboard is available at www.businessweek.com. It features some 2,700 equity funds, more than in the magazine, and several ways of searching for

The Fund Categories

Only technology, communications, and large-cap growth funds beat the S&P 500 in 1998.

CATEGORY	AVERAGE ANNUAL TOTAL RETURN*			
	1998	1996-98	1994-98	1989-98
TECHNOLOGY	54.3	22.8	22.9	22.0
COMMUNICATIONS	46.4	25.4	19.7	20.6
LARGE-CAP GROWTH	36.1	26.2	20.8	18.4
LARGE-CAP BLEND	22.1	23.3	19.5	16.3
HEALTH	18.3	17.2	18.4	21.8
MID-CAP GROWTH	18.3	15.5	14.9	15.9
EUROPE	17.7	21.1	17.4	12.3
UTILITIES	17.5	17.2	13.4	13.9
LARGE-CAP VALUE	12.8	19.8	17.9	15.5
FOREIGN	12.0	9.7	7.3	8.5
WORLD	12.0	13.2	11.0	10.9

CATEGORY	AVERAGE ANNUAL TOTAL RETURN*			
	1998	1996-98	1994-98	1989-98
DOMESTIC HYBRID	12.0	14.6	13.0	12.3
UNALIGNED	10.9	17.0	13.7	16.0
MID-CAP BLEND	9.5	17.7	15.5	14.8
INTERNATIONAL HYBRID	9.1	7.5	6.1	3.9
JAPAN	7.1	-7.0	-2.3	0.1
FINANCIAL	5.1	25.3	23.1	21.9
SMALL-CAP GROWTH	4.6	10.6	11.9	15.5
MID-CAP VALUE	1.5	15.6	14.3	13.5
SMALL-CAP BLEND	-2.4	12.8	11.1	11.0
DIV. PACIFIC/ASIA	-4.9	-11.4	-7.4	2.1
SMALL-CAP VALUE	-5.9	13.8	12.4	12.1

CATEGORY	AVERAGE ANNUAL TOTAL RETURN*			
	1998	1996-98	1994-98	1989-98
PACIFIC/ASIA EX-JAPAN	-10.4	-12.3	-11.2	
PRECIOUS METALS	-12.7	-18.9	-13.6	
REAL ESTATE	-16.2	10.8	7.7	
NATURAL RESOURCES	-22.4	2.5	5.8	
DIVERS. EMRG. MKTS.	-26.3	-9.0	-11.1	
LATIN AMERICA	-38.7	-1.1	-6.9	
U.S. DIVERS. FUNDS	14.1	18.9	16.7	
ALL EQUITY FUNDS	11.4	15.0	13.6	
S&P 500	28.6	28.2	24.0	

*Pretax return, appreciation plus reinvestment of dividends and capital gains. NA=Not available

DATA: MORNINGSTAR, INC

Trendsetters



to we listen to. Whether it's in health care, education or corporations,
the best service requires understanding what customers want.
ade us the leading food and facilities management services provider
America is our ability to turn this understanding into innovative
approaches for serving our customers. That's the art of service,
and it's what's made us trendsetters, ourselves.

dexhomarriott.com


Sodexo Marriott
SERVICES

*Marriott is a registered trademark of Marriott International, Inc.,
used pursuant to license. ©1998, Sodexo Marriott Services, Inc.

BIGGER MAY JUST BE BETTER

"Supermarkets" offer investors convenience and selection

When the first supermarkets appeared on the American landscape, consumers abandoned the local butcher, baker, and greengrocer in droves in favor of the selection, convenience, and lower prices found at the cavernous new megamarts.

There's a similar scramble occurring in the mutual-fund arena, as seemingly every bank and discount broker is racing to assemble "supermarkets" stocked with thousands of funds—even those sponsored by competitors. "One of our goals is to be in the center of our investors' entire portfolios, not just off on the side," says Geoffrey Mackey, marketing manager for Milwaukee-based Strong Funds, which, along with Scudder Kemper Investments, recently opened a supermarket.

And even Vanguard Group—whose founder and former chairman, John C. Bogle, long derided supermarkets as "mutual-fund casinos"—has added some 2,600 outside funds, if only for defensive purposes. "We didn't put our FundAccess program in place to attract new investors but to keep our own clients, who wanted a sector fund or something else we didn't provide, from going elsewhere," admits Joseph Rizzello, head of Vanguard's brokerage service.

BIG SWITCH. Should you start investing at a supermarket? If you're one of the countless early fundholders still juggling a half-dozen or more funds from different families, the supermarkets could simplify your life. Instead of receiving separate monthly or quarterly statements from each fund family, supermarkets like Charles Schwab & Co. can provide a single, consolidated statement—and a single 1099 at tax time showing the previous

year's purchases and redemptions. What's more, if you're an investor who likes to

switch among funds, using a supermarket can spare you the time it takes to receive the proceeds from one fund and invest them in another.

Generally, the supermarkets say they require anywhere from five days to a month to consolidate your fund holdings. After that, you can shift your assets overnight, although more and more supermarkets are quietly imposing penalties to discourage investors from switching. One of the

most aggressive crackdowns is coming, perhaps not surprisingly, from Vanguard, which slaps a penalty equal to 1% of any assets transferred within a year. "We have the most restrictive redemption policy in the industry," admits Rizzello. "And if we see a customer using this program for market timing, we'll ask them to exit the program."

There are also trade-offs on the service front. For instance, there's no way that the phone reps at Jack White Co.—a discount broker that boasts one of the largest selections, with roughly 7,500 funds—can be conversant in subtle distinctions between each fund. For its part, Strong Funds now equips each of its phone representatives with a copy of Morningstar Inc.'s Principia Plus software so they can provide detailed information on each of the 80 funds in its menu.

And while the supermarkets do offer consolidated



Special Report

THE BEST MUTUAL FUNDS

AT WHAT POINT WILL
YOU TRUST YOUR BUSINESS
TO THE INTERNET?

come to VPN Advantage™, the next generation virtual private networking
service from GTE Internetworking. Anyone struggling to balance a teetering
array of business communications needs will now find the Internet a safer,
more cost-effective and comfortable place to do business. A place unfettered
by staff or budget limitations, thanks to one of the world's largest, fastest and
most rigorously engineered backbone networks. End-to-end encryption and
real-time monitoring assure you of the highest level of security commercially
available. Over 600 US Points of Presence as well as global access deliver the
best performance and reach your company needs. To further ease your

mind, our Proactive Service Guarantees stand as the ultimate safety net.
The Internet is not to be feared. It's to be used. Let the architects of the
Internet show you the way.

www.internetworking.gte.com or 800.472.4565



INTERNETWORKING

POWERED BY SBC

counting on any funds transferred from other brokers or fund companies when you join, they say they can't get your transaction histories from your old funds. "Generally speaking, the cost-basis information falls back on the client," admits a Vanguard spokesman. If you can pry this information out of your old fund companies or brokers, a few supermarkets, including Schwab, will manually enter this data into your new account.

More and more brokerages are offering "no transaction fee" (NTF) programs that waive the traditional commissions, which generally run from \$25 to \$150 on a \$50,000 fund investment. Of the roughly 7,500 funds on Jack White's shelves, 1,300 are NTF funds, 1,700 are no-loads with commissions, and 4,500 are funds with sales loads.

Special Report

THE BEST MUTUAL FUNDS

the traditional commissions on NTF funds, they make back by charging the fund managers themselves with special "administrative" fees—usually 0.25% to 0.35% a year of the invested assets. "We're handling a lot of the shareholder servicing," says Schwab Vice-President Greg Gable. "The fees are just substituting for some of the costs the fund companies would otherwise have to bear themselves."

Yet most of White's other funds—4,500, to be exact—still incur up-front "sales loads." Ditto for Waterhouse Securities Inc., where more than two-thirds of its 7,500 funds are load funds. While load funds were originally designed to compensate stockbrokers and financial planners for their investment advice, the loads here are pocketed by the supermarket—even though they didn't provide any advice. The supermarkets contend that they're offering load funds like those from PIMCO Funds—whose Innovation Fund recorded a smart 79% return last year—because customers are clamoring for them.

And the brokers say they are legally prevented from waiving the loads.

So where should you shop? If you're already holding half-dozen funds from different families, the simplest course may be to choose the supermarket that carries the largest number of your current holdings. Here, you may want to check each supermarket or check their Web sites.

CHOICE TOOLS. Latecomers like Strong and Vanguard are making no efforts to match White and Waterhouse Securities' fund for fund. Instead, they're promoting the notion that they're only selecting the better-performing funds. Fund consultants say that Vanguard, to its credit, has a higher percentage of funds with Morningstar's top ranking than its competitors.

If you're looking for help selecting funds that fit your needs, your options drop quickly, since most supermarkets shy away from providing direct advice. Both Schwab and Fidelity Investments, however, have assembled extensive networks of financial planners who are conversant in the funds carried by these giants and, for a fee, can help suggest a proper mix.

E*Trade and Schwab also provide some of the best tools for choosing funds at their Web sites. E*Trade offers a fee screening feature that lets users sort through the 3,000-plus funds it offers by 17 criteria—twice as many as Schwab's screen—including performance, annual turnover, and management tenure. For its part, Schwab provides one of the best asset-allocation services, a Java-based program that offers six recommended models based on the user's investment horizon and tolerance for risk.

But Schwab doesn't recommend the funds. Picking the investor's job. And that's the hitch with the new supermarkets: You get aisle after aisle of funds, and it's up to you to stock your basket.

By Dean Foust in Atlanta

Sizing up the Mutual-Fund Supermarkets

	TOTAL FUNDS	NO-FEE FUNDS	CHARGE FOR BUY/SELL OTHER NO-LOAD FUNDS	MINIMUM HOLDING PERIOD FOR NO-FEE FUNDS	PENALTY FOR EARLY SALES OF NO-FEE FUNDS	LIMITS ON FUND SWITCHES
CHARLES SCHWAB 800 435-4000 www.schwab.com	1,640	1,024	\$39 and up	180 days	0.75%, or \$39 minimum	No
E*TRADE 800 786-2571 www.etrade.com	4,300	1,187	\$24.95	90 days	\$24.95	No
FIDELITY 800 544-9697 www.fidelity.com	3,900+	900+	\$35 and up direct; \$28.95 online; \$28 on Touch-Tone	180 days	Standard transaction fee	Maximum 15 in 12 mos. or standard fees apply
JACK WHITE 800 233-3411 www.jackwhiteco.com	Roughly 7,500	1,300	\$27 direct; \$24 online	90 days	\$50, less than \$100,000; \$100, more than \$100,000	None
SCUDDER 800 700-0820 www.scudder.com	8,000+	800+	\$35	6 months	Standard transaction fee	Yes*
STRONG 800 368-1550 www.strong-funds.com	80	80	\$0	90 days	\$50	No
VANGUARD 800 992-8327 www.vanguard.com	2,600+	948	\$35	1 year	1%, or \$50 minimum	Yes*

* At discretion of brokerage

Go out to eat. Way, way out.

Instead of paddling down the stream of monotony, why not a change of scenery?



The new Ford Explorer Limited is the perfect choice to make a smooth transition to a new setting.

Look, we all need a break from the local scene routine.



New 1999 Ford Explorer Limited

Leather seating surfaces. 290-watt MACH® audio system. Available side-impact airbags. Available Control Blade system for anti-rattle & vibration.†*
Explorer is a Low Emissions Vehicle that runs cleaner than most passenger cars on the road today.



1-800-258-FORD or
www.fordvehicles.com

*Available side-impact airbags. †Available Control Blade system for anti-rattle & vibration. ‡1999 model year only.
at 1st quarter 1999. Always wear your safety belt and secure children in the rear seat.

SAILING PAST THE S&P

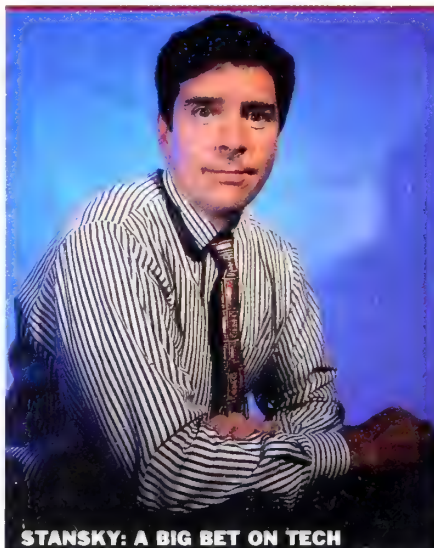
How Robert Stansky got Fidelity's Magellan back on course

Robert E. Stansky says 1998 was no fluke. Last year, he managed the nation's biggest mutual fund—Fidelity Investments' Magellan Fund—to a decisive victory over its main rival, the Standard & Poor's 500-stock index. Magellan returned 33.2% to investors, vs. a 28.6% gain for the S&P 500, and Stansky is convinced he can repeat. "I always said I could beat the S&P," he says. "If I didn't think I could do it again this year, I wouldn't be here."

Whether Stansky outperforms the index that he is benchmarked against is more than a matter of personal pride. If Magellan falls behind the S&P 500 again, disillusioned investors will keep bailing out and the \$83 billion fund could lose its ranking as the nation's largest mutual fund, probably to Vanguard Group's passively managed Vanguard 500 Index Fund, which seeks simply to match the S&P 500, not beat it.

At stake is not only Stansky's own stock-picking prowess but also the very notion that an actively managed fund can beat a passively managed one. The overall track record is not impressive. Last year, only 17% of actively managed funds beat the S&P 500.

"VERY EXPENSIVE." Stansky, 43, who has managed money for Fidelity since 1984, has been under the microscope ever since taking over Magellan from Jeffrey N. Vinik in June, 1996. Skeptics said that no mere mortal could significantly outperform the market with such a big, unwieldy fund, as Peter Lynch routinely did as Magellan's manager in the '80s. Indeed, Magellan trailed the S&P 500 in Stansky's first 1½ years. Last year, though, it came out ahead for the first time since 1993, finishing in the top 16%



STANSKY: A BIG BET ON TECH

Stansky's Top 10

Biggest holdings as of Dec. 31, 1998

COMPANY	FOURTH-QUARTER STOCK-PRICE INCR.
GENERAL ELECTRIC	28%
MICROSOFT	26
AMERICA ONLINE	178
INTEL	38
CISCO SYSTEMS	50
HOME DEPOT	55
MCI WORLDCOM	47
LUCENT TECHNOLOGIES	59
WAL-MART	49
MERCK	14
S&P 500 INDEX	21

SOURCE: FIDELITY INVESTMENTS INC., BUSINESS WEEK

bonds. Stansky liquidated the bond portfolio and trimmed the number of stocks from 455 to 324, sticking mainly with large caps. Tech, financial services, health care, and retail accounted for 58% of Magellan's assets. The rest is in industrial, energy, media, and consumer stocks. Stansky trades slowly (the turnover of holdings is only 34%) and doesn't try to guess market turns. Magellan was only 4% more volatile than the S&P 500 last year. Under Vinik, it was sometimes 36% more volatile.

Stansky isn't planning any big changes in 1999. He's not counting on big caps to continue to dominate. "I can't imagine any scenario that would restore earnings to small-cap levels without also boosting large caps," he says. His favorite sectors also remain the same: high tech, financial, health, and retail.

Talking to Stansky, you might start to worry about the economy. "The market's very expensive. I expect lots of volatility. The economy isn't so robust," he says. But don't expect him to suddenly funnel money into cash or bonds. He sees his job as trying to beat the S&P 500, so he expects to stay fully invested in large-cap stocks. If Magellan loses value but the S&P falls more, he can still claim victory. So far this year (through Jan. 19), Magellan is up 2.5%, vs. 1.8% for the S&P 500.

Magellan's 1998 results may help stanch its bleeding investors. Since Stansky took over, investors have on net withdrawn about \$11.1 billion, according to Alpha Equity Research Inc. The fund was closed to new retail investors on Sept. 30, 1997, but remained open to investors through Fidelity-sponsored 401(k) retirement plans. Much of the fund has gone into index funds. Says Stansky: "I don't tell them for buying index funds.... I didn't give people a reason not to buy index funds." Now, he hopes, he has.

By Geoffrey Smith in New York

Special Report

THE BEST MUTUAL FUNDS

of 1,472 growth funds tracked by Morningstar Inc.

Magellan didn't pull well ahead of the S&P 500 index until the last two months of 1998. Starting on Aug. 31—after the market tumbled—Stansky went on a technology buying spree. By yearend, tech stocks reached 25.8% of assets, vs. 19.8% for the S&P 500 (table). Stansky also owned Internet stocks such as Yahoo! Inc. and Amazon.com Inc., but not enough to have a big impact on the fund's performance.

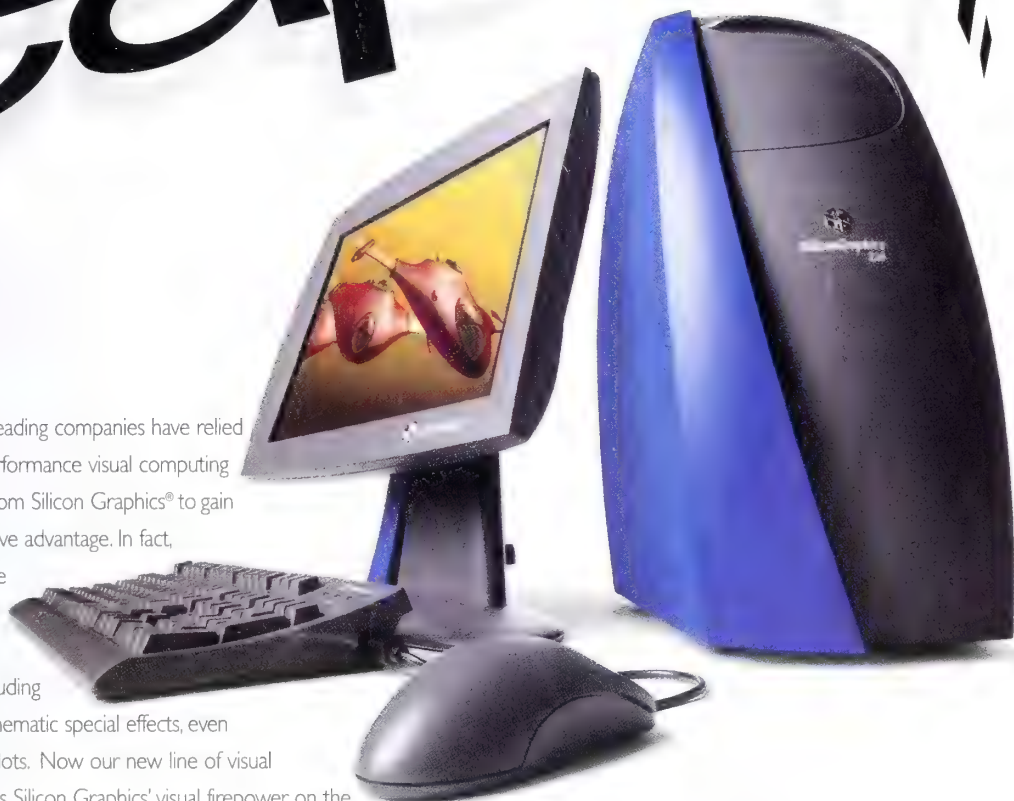
Under Stansky, Magellan is more conservative than it was under any of its previous managers. Lynch traded frequently and usually owned 700 to 800 stocks, sometimes more than 1,000. Vinik, who ran the fund from 1992 to 1996, also traded rapidly, tried to time the market and bought \$20 billion in

If business is war, we've just turned Windows NT[®]
into a graphically superior

weapon.

STARTING
@
\$3,395

For years, leading companies have relied on high-performance visual computing solutions from Silicon Graphics[®] to gain a competitive advantage. In fact,



Silicon Graphics' solutions are the weapon of choice for some of the world's most visually demanding tasks, including automotive 3D modeling, cinematic special effects, even flight simulation for fighter pilots. Now our new line of visual workstations lets you harness Silicon Graphics' visual firepower on the Windows NT platform. Featuring our Integrated Visual Computing architecture with the Cobalt[™] graphics chipset, these

workstations move graphics data six times faster than AGP 2X-based workstations*—helping you increase productivity and improve your bottom line. Best of all, pricing starts at just \$3,395, allowing you to bring the visual computing power of Silicon Graphics to your company without declaring war on your budget.

Silicon Graphics 320[™] Visual Workstation

- Silicon Graphics Integrated Visual Computing architecture with Cobalt graphics chipset
- Supports up to two Intel[®] Pentium[®] II processors (up to 450MHz)
- I/O bandwidth up to 12 times greater than other PC workstations**
- Ultra ATA or optional Ultra2 SCSI drives up to 28GB total capacity
- Microsoft[®] Windows NT[®] Workstation 4.0
- Add the SuperWide[™] 17.3" Silicon Graphics 1600SW[™] digital flat panel monitor (shown) for only \$2,495



SiliconGraphics

To get information, find a local reseller or to order, call 1 888 SGI-9369 or visit us at www.sgi.com/go/visual

*Bandwidth based on graphics to main memory. **I/O bandwidth compared to A2, but not Pentium. Prices quoted are for Intel[®] only.
Silicon Graphics, Inc. All rights reserved. Silicon Graphics is a registered trademark, and the Silicon Graphics logo, Silicon Graphics 320, Cobalt, SuperWide and Silicon Graphics 1600SW are trademarks of Silicon Graphics, Inc. Intel, the Intel Inside logo and Pentium are registered trademarks of Intel Corporation. Microsoft, Windows and Windows NT are registered trademarks of Microsoft Corporation. All other trademarks are property of their respective owners.

Equity Funds

MUTUAL FUND SCOREBOARD

How to Use the Tables

BUSINESS WEEK RATINGS

Overall ratings are based on five-year, risk-adjusted returns. They are calculated by subtracting a fund's risk-of-loss factor (see RISK) from historical pretax total return. To get a positive rating, the fund must beat the S&P 500 on a risk-adjusted basis. Category ratings are based on risk-adjusted returns of the funds in that category. The ratings are as follows:

A	SUPERIOR
B+	VERY GOOD
B	ABOVE AVERAGE
C	AVERAGE
C-	BELOW AVERAGE
D	POOR
F	VERY POOR

MANAGEMENT CHANGES

⬆ indicates the fund's manager has held the job at least 10 years; ⬆ indicates a new manager since Dec. 31, 1997.

S&P 500 COMPARISON

The pretax total returns for the S&P 500 are as follows: 1998, 28.6%; three-year average (1996-1998), 28.2%; five-year average (1994-98), 24.0%; 10-year average (1989-98), 19.2%.

CATEGORY

Each U.S. diversified fund is classified by market capitalization of the stocks in the portfolio and by the nature of those stocks. If the median market cap is greater than \$12 billion, the fund is large-cap; from \$1.2 billion to \$12 billion, mid-

cap; and less than \$1.2 billion, small-cap. "Value" funds whose stocks have price-to-book ratios and price-to-book ratios the average of the stock market capitalizations. Funds with higher than average and p-b ratios. "Blend" funds those in which the ratio of stocks to bonds, and possibly other assets, is greater than the average. Hybrids mix stocks and bonds, and possibly other assets. World funds generally invest in foreign stocks; foreign funds invest in foreign stocks and regional foreign funds invest in regional foreign stocks.

FUND	OVERALL RATING (COMPARES RISK-ADJUSTED PERFORMANCE OF EACH FUND AGAINST ALL FUNDS)	CATEGORY (COMPARES RISK-ADJUSTED PERFORMANCE OF FUND WITHIN CATEGORY)	RATING	SIZE ASSETS \$MIL.	% CHG 1997-98	FEES SALES CHARGE (%)	EXPENSE RATIO (%)	1998 R PRE- TAX
AARP BALANCED STOCK & BOND		Domestic Hybrid		773.5	16	No load	0.84	6.4
AARP CAPITAL GROWTH	C	Large-cap Blend	D	1550.2	27	No load	0.87	23.7
AARP GROWTH & INCOME ⬆	B	Large-cap Value	B	6933.0	4	No load	0.67	6.1
ACCESSOR SMALL TO MID CAP	C	Mid-cap Blend	C	257.4	106	No load	1.15	15.3
ACORN ⬆	C-	Mid-cap Growth	B	3585.0	-3	No load	0.56	6.0
ACORN INTERNATIONAL	C-	Foreign	B	1726.1	6	No load	1.19	15.4
ACORN USA		Small-cap Blend		281.5	53	No load	1.35	5.8
AIM ADVISOR FLEX C ⬆	B+	Domestic Hybrid	B	669.0	11	1.00**	2.20†	12.4
AIM ADVISOR MULTIFLEX C	C	Mid-cap Value	C	312.6	-17	1.00**	2.42†	-0.3
AIM AGGRESSIVE GROWTH	D	Small-cap Growth	C	3069.3	-17	5.50†	1.06†	5.0
AIM BALANCED A	B	Domestic Hybrid	C	1319.2	93	4.75	0.98†	12.5
AIM BLUE CHIP A	B+	Large-cap Blend	B	1366.1	140	5.50	1.31†	30.4
AIM CAPITAL DEVELOPMENT A		Small-cap Growth		828.7	34	5.50	1.32†	4.5
AIM CHARTER A	C	Large-cap Blend	C-	4260.5	21	5.50	1.09†	26.8
AIM CONSTELLATION A	C-	Mid-cap Growth	C	14304.0	2	5.50	1.11†	18.9
AIM EUROPE GROWTH A (a) ⬆	C-	Europe	F	416.6	-5	5.50	1.75†	16.6
AIM GLOBAL AGGRESSIVE GROWTH B		World		1011.6	-16	5.00**	2.30†	3.4
AIM GLOBAL GROWTH & INCOME B (b)	B	International Hybrid	B	504.0	7	5.00**	2.15†	19.6
AIM GLOBAL GROWTH B		World		314.5	36	5.00**	2.29†	21.4
AIM GLOBAL HEALTH CARE A (c)	C-	Health	C	396.3	-6	4.75	1.77†	18.4
AIM GLOBAL TELECOMMUNICATIONS A (d)	D	Communications	F	783.2	-9	4.75	1.79†	18.1
AIM INTERNATIONAL EQUITY A	C-	Foreign	C	1806.2	13	5.50	1.47†	13.4
AIM SELECT GROWTH B (e)	C-	Mid-cap Growth	B	315.4	-11	5.00**	1.99†	26.1
AIM SUMMIT	C	Mid-cap Growth	B+	2242.0	36	8.50	0.68	34.4
AIM VALUE B	B	Large Blend	C	9678.3	42	5.00**	1.85†	31.7
AIM WEINGARTEN A ⬆	C	Large Growth	C	7276.2	24	5.50	1.07†	33.1
ALGER CAPITAL APPRECIATION B	C-	Large Growth	D	261.7	22	5.00**	2.38†	37.4
ALGER GROWTH B ⬆	C	Large Growth	C-	426.2	50	5.00**	2.08†	44.1
ALGER MIDCAP GROWTH B	C-	Mid-cap Growth	B	205.8	25	5.00**	2.19†	31.1
ALGER SMALL CAPITALIZATION B ⬆	D	Mid-cap Growth	D	483.2	-15	5.00**	2.14†	9.9
ALLIANCE A	C-	Large Blend	F	1006.2	-13	4.25	1.03†	-2.7
ALLIANCE GROWTH & INCOME A	B	Large Blend	C	1091.0	33	4.25	0.91†	21.2
ALLIANCE GROWTH B ⬆	C	Large Blend	D	4894.8	30	4.00**	1.95†	27.2
ALLIANCE PREMIER GROWTH B	B	Large Blend	C-	3440.6	278	4.00**	2.25†	48.3
ALLIANCE QUASAR B	C-	Small Growth	B	750.6	36	4.00**	2.38†	-5.3
ALLIANCE REAL ESTATE INVESTMENT B		Real Estate		244.1	-17	4.00**	2.26†	-20.8
ALLIANCE TECHNOLOGY B	C-	Technology	C	1846.4	80	4.00**	2.38†	62.0
ALLIANCE WORLDWIDE PRIVATIZATION A		Foreign		362.3	-25	4.25	1.73†	8.9
AMCAP ⬆	B	Large Growth	B	5830.0	29	5.75	0.68†	30.0
AMERICAN BALANCED ⬆	B+	Domestic Hybrid	B	5881.4	17	5.75	0.65†	11.1
AMERICAN CENTURY BALANCED INV.	B	Domestic Hybrid	C-	998.6	7	No load	1.00	16.3
AMERICAN CENTURY EQUITY GROWTH INV.	A	Large Value	A	2018.8	162	No load	0.69	25.5
AMERICAN CENTURY EQUITY INCOME INV.		Mid-cap Value		326.1	10	No load	1.00	13.0
AMERICAN CENTURY GLOBAL GOLD	F	Precious Metals	C-	228.5	-3	No load	0.67	-12.2
AMERICAN CENTURY INCOME & GROWTH INV.	A	Large-cap Value	A	4284.7	140	No load	0.66	27.7

*Includes redemption fee. **Includes deferred sales charge. †12(b)-1 plan in effect. ‡Not currently accepting new accounts. \$Less than 0.5% of assets. NA=Not available. (a) Formerly GT Global Europe Growth A. (b) Formerly GT Global Growth & Income B. (c) Formerly GT Global Health Care A. (d) Formerly GT Global Telecommunications A.

IGE
 buying a fund. Many
 his "load" out of the
 ment, and for ratings
 urns are reduced by
 s. Loads may be
 hdrawals.

TIO
 1998 as a percent-
 e net assets, a mea-
 nuch shareholders
 gement. Footnotes
 e ratio includes a
 which spends
 money on marketing.
 s 1.44%.

AL RETURN
 gain to investors,
 investment of divi-
 dential gains at
 ices.

TOTAL RETURN
 adjusted for federal
 es ordinary income

and capital gains taxed at highest
 rate applicable in each year; uses
 31% tax rate on income since
 1993. Capital gains are assumed
 to be long-term.

YIELD
 Income distributions as a percent
 of net asset value, adjusted for
 capital-gains distributions.

HISTORY
 A fund's returns relative to all
 other funds for four periods,
 which from left to right are: Jan.,
 1989-June, 1991; July, 1991-
 Dec., 1993; Jan., 1994-June,
 1996; July, 1996-Dec., 1998.
 The numbers designate which
 quartile the fund was in during
 the period: 1 for the top quar-
 tile; 2 for the second quartile;
 3 for the third quartile; 4 for
 the bottom quartile. No number
 indicates no data for that period.

TURNOVER
 Trading activity, the lesser of pur-
 chases or sales divided by aver-
 age monthly assets.

% CASH
 Portion of fund assets not invest-
 ed in stocks or bonds. A negative
 number means the fund has bor-
 rowed to buy securities.

% FOREIGN
 Portion of funds assets invested
 in non-U.S. securities.

PRICE-EARNINGS RATIO
 The average, weighted price-earn-
 ings ratio of stocks in a fund's
 portfolio, based on last 12
 months' earnings.

UNTAXED GAINS
 Percentage of assets in portfolio
 that are unrealized and undistrib-
 uted capital gains. A negative
 figure indicates losses that may
 offset future gains.

LARGEST HOLDING
 Comes from the latest available
 fund reports.

RISK
 Potential for losing money in a
 fund, or risk-of-loss factor. For
 each fund, the three-month Treas-
 ury bill return is subtracted from
 the monthly total return for each
 of the 60 months in the ratings
 period. When a fund has not per-
 formed as well as Treasury bills,
 the monthly result is negative.
 The sum of these negative num-
 bers is divided by the number of
 months. The result is a negative
 number, and the greater its mag-
 nitude, the higher the risk of loss.
 This number is the basis for BW
 ratings, category ratings, and the
 RISK column.

BEST & WORST QUARTERS
 The fund's highest and lowest
 quarterly returns of the past five
 years.

AL TOTAL RETURNS (%) HISTORY				PORTFOLIO DATA							RISK				TELEPHONE		
5 YEARS		10 YEARS		RESULTS VS. ALL FUNDS	TURNOVER	CASH %	FOREIGN %	P-E RATIO	UNTAXED GAINS (%)	LARGEST HOLDING COMPANY (% ASSETS)	LEVEL	BEST		WORST			
RETAX	AFTERTAX	PRETAX	AFTERTAX									QTR	%RET	QTR	%RET		
NA	NA	NA	NA	3	Average	6	14	25	12	Ford Motor (2)		NA	NA	800-322-2282			
8.8	16.9	16.3	14.2	3231	Average	7	8	31	38	Schering-Plough (3)	Average	IV 98	25.8	III 98	-15.4	800-322-2282	
8.1	15.6	16.4	14.3	2212	Low	2	15	25	22	Ford Motor (3)	Low	II 97	15.5	III 98	-13.8	800-322-2282	
9.9	17.0	NA	NA	21	High	2	NA	27	16	Berkshire Hathaway Cl. A (3)	Average	IV 98	23.6	III 98	-18.6	800-759-3504	
2.7	10.3	16.3	14.2	3133	Low	8	10	27	42	Liberty Media Cl. A (4)	Average	IV 98	17.9	III 98	-19.5	800-922-6769	
7.9	7.3	NA	NA	44	Low	19	94	30	30	Tieto Cl B (5)	Average	I 98	18.2	III 98	-16.1	800-922-6769	
NA	NA	NA	NA		Low	10	1	23	13	CalEnergy (6)		NA	NA	800-922-6769			
5.1	13.2	13.6	11.7	3332	Very low	1	10	23	30	American Home Products (1)	Very low	II 97	11.5	III 98	-7.3	800-554-1156	
0.7	9.5	NA	NA	33	Average	1	27	23	0	CarrAmerica Realty (1)	Low	II 97	11.3	III 98	-14.5	800-554-1156	
7.4	16.7	20.8	19.4	2114	Average	10	2	33	35	Veritas Software (1)	High	IV 98	25.3	III 98	-22.8	800-347-4246	
6.3	15.0	15.6	14.4	3222	Average	8	4	34	16	S&P 500 Index (Fut.) (Long) (4)	Low	IV 98	13.5	III 98	-8.9	800-347-4246	
4.1	22.1	18.4	17.0	1411	Low	7	4	36	25	S&P 500 Index (Fut.) (7)	Average	IV 98	24.5	III 98	-11.0	800-347-4246	
NA	NA	NA	NA	2	Low	7	2	34	10	SunGard Data Systems (1)		NA	NA	800-347-4246			
9.7	17.0	18.8	16.5	1421	High	1	4	35	33	Philip Morris (4)	Average	IV 98	26.1	III 98	-11.9	800-347-4246	
5.5	15.3	20.6	19.3	1113	Average	7	4	38	38	BMC Software (1)	High	IV 98	24.8	III 98	-15.6	800-347-4246	
9.9	9.3	8.6	8.2	4433	High	3	99	34	21	Nokia Cl. A (4)	High	I 98	23.3	III 98	-21.0	800-347-4246	
NA	NA	NA	NA	4	Average	12	67	33	20	WM-Data Cl. B (1)		NA	NA	800-347-4246			
2.4	10.6	NA	NA	42	Average	3	58	26	29	Bristol-Myers Squibb (4)	Very low	IV 98	12.0	III 98	-7.9	800-347-4246	
NA	NA	NA	NA	2	High	10	88	33	26	MCI Communications (2)		NA	NA	800-347-4246			
5.6	13.4	NA	NA	4112	High	12	25	41	12	Pfizer (7)	High	IV 98	21.6	III 98	-11.3	800-347-4246	
7.9	6.2	NA	NA	44	Low	2	55	36	33	Nokia Cl. A (5)	High	IV 98	26.8	III 98	-24.0	800-347-4246	
9.9	9.2	NA	NA	33	Average	14	100	29	24	Renault (2)	Average	I 98	14.7	III 98	-14.6	800-347-4246	
7.1	15.3	NA	NA	32	High	7	2	40	44	Dell Computer (3)	High	IV 98	29.2	III 98	-14.5	800-347-4246	
1.3	18.9	18.9	16.4	1321	Average	4	4	36	41	Dell Computer (3)	High	IV 98	29.9	III 98	-12.3	800-347-4246	
1.3	18.5	NA	NA	21	High	8	9	35	30	American Intl. Group (4)	Average	IV 98	27.1	III 98	-12.3	800-347-4246	
1.5	17.6	18.8	16.4	1421	High	7	9	38	25	MCI Communications (3)	Average	IV 98	28.0	III 98	-12.2	800-347-4246	
1.8	25.7	NA	NA	12	High	13	2	45	30	Tyco Intl. (3)	High	II 95	29.5	III 98	-12.5	800-992-3863	
1.1	19.9	21.8	19.7	1121	High	19	1	44	30	Safeway (3)	High	IV 98	25.0	III 98	-8.3	800-992-3863	
1.0	17.8	NA	NA	12	High	12	4	38	16	Elan ADR (3)	High	IV 98	27.3	III 98	-14.5	800-992-3863	
1.2	9.9	18.9	16.2	1214	High	10	2	37	21	Medimmune (3)	High	IV 98	24.1	III 98	-20.2	800-992-3863	
1.4	10.3	15.5	11.2	2222	High	0	5	22	2	MBNA (6)	High	IV 98	23.7	III 98	-24.3	800-227-4618	
1.7	16.9	16.5	12.5	2421	Average	3	1	27	19	Bristol-Myers Squibb (5)	Average	IV 98	23.3	III 98	-13.8	800-227-4618	
1.9	18.5	21.0	18.6	1131	Average	1	10	30	33	MCI WorldCom (6)	Average	IV 98	28.6	III 98	-16.4	800-227-4618	
1.0	24.8	NA	NA	11	Average	4	9	42	27	Nokia Cl. A ADR (7)	High	IV 98	30.8	III 98	-12.3	800-227-4618	
1.4	9.9	NA	NA	4114	High	4	6	24	-6	Budget Group (4)	High	I 96	18.7	III 98	-28.6	800-227-4618	
NA	NA	NA	NA		Low	4	5	25	-17	Equity Office Properties Tr. (5)		NA	NA	800-227-4618			
1.8	28.0	NA	NA	11	Average	10	6	45	41	Dell Computer (8)	High	IV 98	39.6	IV 97	-16.6	800-227-4618	
NA	NA	NA	NA	3	Average	4	95	24	6	Viag (3)		NA	NA	800-227-4618			
1.0	16.5	17.3	14.1	2331	Low	22	NA	36	42	Philip Morris (4)	Average	IV 98	22.0	III 98	-8.6	800-421-4120	
1.2	11.5	13.4	10.7	3332	Low	13	10	26	14	Hewlett-Packard (1)	Very low	II 97	10.0	I 94	-3.7	800-421-4120	
1.2	10.4	13.4	11.4	2432	High	4	NA	45	17	S&P 500 Index (Fut.) (4)	Low	II 97	12.3	III 98	-6.9	800-345-2021	
1.9	20.8	NA	NA	311	High	1	2	27	17	BellSouth (3)	Low	IV 98	23.1	III 98	-13.9	800-345-2021	
1.4	NA	NA	NA	2	High	3	NA	21	1	Mercantile Bancorp. (4)		NA	NA	800-345-2021			
1.6	-15.2	-3.5	-3.9	4244	Low	0	78	30	-78	Barrick Gold (17)	Very high	I 96	19.0	IV 97	-31.4	800-345-2021	
1.7	20.9	NA	NA	211	High	1	1	28	19	Microsoft (3)	Low	IV 98	22.2	III 98	-11.3	800-345-2021	

DATA: MORNINGSTAR, INC., CHICAGO, IL.

MUTUAL FUND SCOREBOARD

FUND	OVERALL RATING (COMPARES RISK-ADJUSTED PERFORMANCE OF EACH FUND AGAINST ALL FUNDS)	CATEGORY	RATING (COMPARES RISK-ADJUSTED PERFORMANCE OF FUND WITHIN CATEGORY)	SIZE ASSETS \$MIL.	% CHG. 1997-98	FEES SALES CHARGE (%)	EXPENSE RATIO (%)	1998 RET. PRE- TAX
AMERICAN CENT. STRAT. ALLOC.: MOD. INV.		Domestic Hybrid		271.7	32	No load	1.10	12.8
AMERICAN CENTURY UTILITIES	B	Utilities	B	307.2	49	No load	0.72	27.4
AMERICAN CENTURY VALUE INVESTOR	B	Mid-cap Value	B+	2082.6	-14	No load	1.00	5.0
AMERICAN CENTURY-20THC. GIFTRUST	F	Small-cap Growth	D	920.3	-7	No load	1.00	-13.1
AMERICAN CENTURY-20THC. GROWTH INV. (i)	C	Large-cap Growth	D	6493.2	26	No load	1.00	36.8
AMERICAN CENTURY-20THC. HERIT. INV. (i)	D	Mid-cap Growth	C-	1070.7	-16	No load	1.00	-0.2
AMERICAN CENTURY-20THC. INTL. DISC. INV.		Foreign		799.2	28	2.00*	1.70	17.9
AMERICAN CENTURY-20THC. INTL. GR. INV.	C-	Foreign	B	2640.0	48	No load	1.38	19.0
AMERICAN CENTURY-20THC. SELECT INV.	C	Large-cap Blend	D	6498.3	30	No load	1.00	35.7
AMERICAN CENTURY-20THC. ULTRA INV.	C-	Large-cap Growth	D	27150.0	21	No load	1.00	34.6
AMERICAN CENTURY-20THC. VISTA INV.	F	Mid-cap Growth	F	954.9	-42	No load	1.00	-14.3
AMERICAN GAS INDEX	C	Natural Resources	A	230.4	-6	No load	0.85	5.3
AMERICAN MUTUAL (i)	B+	Large-cap Value	B+	10629.5	9	5.75	0.58†	14.8
AMERICAN NATIONAL INCOME	B	Large-cap Value	C	202.1	2	5.75	1.05	6.5
AMSOUTH BALANCED PREMIER		Domestic Hybrid		328.6	7	No load	NA	13.6
AMSOUTH EQUITY PREMIER (i)		Large-cap Value		958.6	9	No load	NA	18.4
ARIEL APPRECIATION	B	Mid-cap Blend	B+	283.8	39	No load	1.26†	19.6
ARIEL GROWTH (i)	B	Mid-cap Blend	B	201.8	16	No load	1.21†	9.9
ARTISAN INTERNATIONAL		Foreign		504.7	68	No load	1.45	32.2
ATLAS GROWTH & INCOME A	B	Large-cap Blend	C	224.6	53	No load	1.10†	26.1
BABSON GROWTH	B+	Large-cap Growth	B+	512.1	29	No load	0.80	32.2
BABSON VALUE (i)	C	Large-cap Value	C-	1453.8	4	No load	0.97	6.1
BARON ASSET (i)	C	Small-cap Growth	A	5672.3	50	No load	1.32†	4.3
BARON GROWTH & INCOME		Small-cap Growth		343.7	-17	No load	1.37†	0.1
BARON SMALL CAP		Small-cap Growth		470.0	65	No load	1.39†	2.2
BERGER 100	D	Large-cap Growth	F	1566.5	-9	No load	1.30†	16.2
BERGER GROWTH & INCOME (i)	C	Large-cap Growth	C-	347.3	2	No load	1.44†	22.5
BERGER SMALL COMPANY GROWTH	D	Small-cap Growth	C	670.2	-15	No load	1.48†	3.2
BERNSTEIN EMERGING MARKETS VALUE		Diversified Emerging Mkts.		422.7	25	2.00*	1.75	-21.1
BERNSTEIN INTERNATIONAL VALUE	C	Foreign	B+	5147.5	10	No load	1.27	11.0
BNY HAMILTON LARGE CAP GROWTH INST.		Large-cap Blend		417.6	12	No load	NA†	23.5
BOSTON 1784 GROWTH & INCOME	B	Large-cap Growth	C	579.1	15	No load	0.90†	22.7
BOSTON 1784 GROWTH		Mid-cap Growth		203.4	-31	No load	0.91†	1.4
BOSTON 1784 INTERNATIONAL EQUITY		Foreign		446.2	2	No load	1.24†	12.5
BRANWELL GROWTH		Large-cap Growth		248.5	66	No load	1.66†	34.5
BRANDYWINE BLUE	C-	Mid-cap Growth	C	356.8	-40	No load	1.06	-1.0
BRANDYWINE (i)	C-	Mid-cap Growth	C	4890.0	-42	No load	1.04	-0.7
BRAZOS/JMIC SMALL CAP GROWTH		Small-cap Growth		382.6	314	No load	1.35	13.6
BRINSON GLOBAL (EX-U.S.) EQUITY I (f)	C	Foreign	B+	487.5	20	No load	1.00	14.4
BRINSON GLOBAL N		International Hybrid		578.5	-7	No load	1.19†	8.0
BRINSON U.S. EQUITY I		Large-cap Blend		691.2	36	No load	0.80	18.6
BT INVESTMENT EQUITY 500 INDEX	A	Large-cap Blend	A	873.3	35	No load	0.25	28.6
BT INVESTMENT INTL. EQUITY	C	Foreign	A	1400.2	144	No load	1.50	20.8
CALDWELL & ORKIN MARKET OPP.	A	Domestic Hybrid	A	374.6	166	2.00*†	1.17	22.4
CALVERT SOCIAL INV. BALANCED A (g)	B	Domestic Hybrid	C-	674.1	9	4.75	1.12†	17.5
CALVERT WORLD VALUE INTL. EQUITY A	C-	Foreign	C	221.5	10	4.75	1.76†	16.1
CAPITAL INCOME BUILDER (i)	B+	Domestic Hybrid	B	9238.7	18	5.75	0.65†	11.8
CAPITAL WORLD GROWTH & INCOME (i)	B	World Stock	A	8696.9	18	5.75	0.82†	16.2
CCB EQUITY (h)		Large-cap Blend		227.4	14	4.50	1.00†	24.4
CENTURY SHARES (i)	C	Financial	D	415.3	0	No load	0.82	7.0
CGM CAPITAL DEVELOPMENT (i)	D	Mid-cap Blend	F	657.0	-19	No load†	1.07	10.3
CGM MUTUAL (i)	C-	Domestic Hybrid	F	942.0	-21	No load	0.98	8.2
CGM REALTY		Real Estate		435.0	-11	No load	1.00	-21.2
CHASE VISTA CAPITAL GROWTH A (i)	C	Mid-cap Blend	C-	769.8	-12	5.75	1.31†	5.5
CHASE VISTA GROWTH & INCOME A (j)	C	Large Value	C-	1602.0	4	5.75	1.27†	14.1
CHESAPEAKE AGGRESSIVE GROWTH	D	Mid-cap Growth	D	375.2	-33	3.00†	1.42	-3.4
CHICAGO TRUST BALANCED (i)		Domestic Hybrid		241.1	25	No load	1.07†	25.7
CHICAGO TRUST GROWTH & INCOME	A	Large-cap Growth	B+	428.2	48	No load	1.07†	35.5
CITIFUNDS BALANCED (k)	C	Domestic Hybrid	D	236.4	4	No load	1.02†	7.8
CITIFUNDS LARGE CAP GROWTH (l)	B+	Large-cap Growth	B	487.0	87	No load	1.05†	37.2
CITISELECT FOLIO 300		Domestic Hybrid		337.7	-3	No load	1.50†	6.6
CITISELECT FOLIO 400		Domestic Hybrid		396.3	-16	No load	1.65†	4.5
CITIZENS INDEX		Large-cap Growth		437.9	70	No load	1.59†	42.8
CLIPPER (i)	A	Large-cap Value	A	1234.2	50	No load	1.08	19.2
COHEN & STEERS REALTY SHARES	C-	Real Estate	B	2145.6	-38	No load	1.05	-18.1
COLONIAL A	B	Domestic Hybrid	C-	993.4	7	5.75	1.14†	13.1
COLONIAL SELECT VALUE A	C	Mid-cap Blend	B	421.3	19	5.75	1.03†	14.4
COLONIAL SMALL CAP VALUE A	C-	Small-cap Blend	C	405.4	45	5.75	1.42†	-6.2
COLONIAL U.S. GROWTH & INCOME B (m)	B	Large-cap Blend	C-	782.2	62	5.00**	2.16†	19.2
COLONIAL UTILITIES B (i)	B	Utilities	C	777.3	9	5.00**	1.97†	21.3

*Includes redemption fee. **Includes deferred sales charge. †12(b)-1 plan in effect. ‡Not currently accepting new accounts. \$Less than 0.5% of assets. NA=Not available. NM=Not meaningful. (f) Formerly Brinson Non-U.S. Equity I. (g) Formerly Calvert Social Investment Mgd. Grth. A. (h) Formerly 111 Corcoran Equity. (i) Formerly Vista Capital Growth A. (j) Form & Income A. (k) Formerly Landmark Balanced A. (l) Formerly Landmark Equity A. (m) Formerly Colonial U.S. Stock B.

ANNUAL TOTAL RETURNS (%) HISTORY										PORTFOLIO DATA				RISK				TELEPHONE	
5 YEARS		10 YEARS		RESULTS VS ALL FUNDS	TURNOVER	CASH %	FOREIGN %	P-E RATIO	UNTAXED GAINS (%)	LARGEST HOLDING COMPANY (% ASSETS)	LEVEL	BEST		WORST		QTR	%RET	QTR	%RET
PRETAX	AFTERTAX	PRETAX	AFTERTAX									QTR	%RET	QTR	%RET				
NA	NA	NA	NA	3	High	6	20	31	10	Microsoft (1)			NA	NA					800-345-2021
17.2	15.0	NA	NA	41	Average	1	5	24	24	MCI WorldCom (7)	Low	IV 97	18.0	I 94	-8.7				800-345-2021
17.8	13.5	NA	NA	12	High	4	1	24	-5	Mercantile Bancorp. (5)	Low	II 97	12.9	III 98	-10.9				800-345-2021
7.4	6.0	17.7	15.8	11174	High	8	1	38	9	Nova (GA) (3)	Very high	IV 98	22.7	III 98	-30.3				800-345-2021
19.3	15.2	18.7	15.9	1331	Average	4	1	44	29	S&P 500 Index (Fut.) (4)	High	IV 98	20.5	IV 95	-8.4				800-345-2021
10.3	7.9	13.7	11.6	2133	Average	5	15	35	12	Mylan Laboratories (6)	High	IV 98	17.7	III 98	-21.2				800-345-2021
NA	NA	NA	NA	2	High	10	93	36	26	Marschollek Lautenschlager (4)			NA	NA					800-345-2021
11.7	9.6	NA	NA	142	High	9	99	35	18	Novartis (Reg.) (2)	Average	I 98	18.0	III 98	-17.9				800-345-2021
9.3	15.1	17.1	13.9	1441	Average	5	0	40	26	General Electric (4)	Average	IV 98	22.4	III 98	-7.4				800-345-2021
10.1	17.4	24.0	22.1	1121	High	2	3	41	30	MCI WorldCom (5)	High	IV 98	23.0	III 98	-11.8				800-345-2021
5.2	4.0	11.5	9.9	1314	High	8	2	35	9	Ascend Communications (4)	Very high	III 94	18.4	III 98	-27.5				800-345-2021
3.2	11.9	NA	NA	332	Very low	3	NA	23	42	Duke Energy (5)	Low	IV 97	12.9	I 94	-6.5				800-343-3355
7.3	14.3	15.2	12.3	2322	Low	24	2	26	33	Ameritech (3)	Very low	IV 98	12.4	III 98	-5.7				800-421-4120
4.2	11.7	14.0	11.2	2323	Low	17	3	22	30	Schering-Plough (5)	Low	I 98	10.8	III 98	-12.2				800-231-4639
NA	NA	NA	NA	3	High	4	3	31	NA	Pharmacia & Upjohn (2)			NA	NA					800-451-8382
NA	NA	NA	NA	341	Low	6	2	30	NA	Wal-Mart Stores (3)			NA	NA					800-451-8382
8.3	16.0	NA	NA	341	Low	3	NA	25	40	Century Telephone Entprs. (6)	Low	IV 98	23.4	III 98	-12.9				800-292-7435
6.0	13.3	13.5	11.4	3341	Low	1	NA	23	40	Specialty Equipment (6)	Low	IV 98	20.1	III 98	-15.6				800-292-7435
NA	NA	NA	NA	2	High	2	96	31	16	Union Bank Switz. (Reg.) (4)			NA	NA					800-344-1770
0.2	17.5	NA	NA	311	High	8	NA	41	29	Tyco Intl. (4)	Average	IV 98	20.4	III 98	-9.5				800-933-2852
1.9	18.6	16.3	13.5	3421	Low	1	1	39	51	Cardinal Health (5)	Low	IV 98	26.2	III 98	-9.5				800-422-2766
7.3	16.1	15.6	14.2	3212	Very low	1	9	22	23	Chase Manhattan (3)	Average	IV 98	14.1	III 98	-17.8				800-422-2766
9.9	19.6	16.9	16.2	4113	Low	2	4	38	20	Charles Schwab (8)	High	IV 98	26.6	III 98	-23.5				800-992-2766
NA	NA	NA	NA	3	Low	0	3	38	31	Choice Hotels Intl. (10)			NA	NA					800-992-2766
NA	NA	NA	NA	3	Low	2	10	33	-5	Iron Mountain (6)			NA	NA					800-992-2766
1.2	7.8	19.5	16.9	1143	Very high	8	1	37	20	Cadence Design Systems (6)	High	IV 98	30.4	III 98	-19.4				800-333-1001
4.4	11.5	16.3	14.2	3141	Very high	11	6	39	19	Microsoft (3)	Average	IV 98	20.9	III 98	-7.9				800-333-1001
5.3	14.7	NA	NA	14	High	14	5	43	23	TSI Intl. Software (2)	High	IV 98	26.6	III 98	-29.2				800-333-1001
NA	NA	NA	NA	4	Low	5	99	16	-67	EDP (5)			NA	NA					212-756-4097
3.8	7.8	NA	NA	33	Low	2	100	24	-1	Banca Commerc. Italiana (4)	Average	I 98	18.6	III 98	-17.7				212-756-4097
NA	NA	NA	NA	12	Low	5	6	37	NA	Pfizer (4)			NA	NA					800-426-9363
3.8	18.1	NA	NA	12	Low	9	16	41	50	Microsoft (5)	Average	IV 98	17.3	III 98	-12.8				800-252-1784
NA	NA	NA	NA	4	Average	6	22	39	24	Aspect Development (6)			NA	NA					800-252-1784
NA	NA	NA	NA	4	High	9	100	33	21	Glaxo Wellcome (4)			NA	NA					800-252-1784
NA	NA	NA	NA	1	Average	6	4	41	40	Computer Sciences (4)			NA	NA					800-272-6227
5.5	13.1	NA	NA	113	Very high	2	5	44	10	Ascend Communications (6)	High	III 97	19.9	III 98	-19.9				800-656-3017
1.6	10.9	18.2	15.5	1113	Very high	3	6	43	12	Ascend Communications (6)	High	III 97	19.0	III 98	-18.9				800-656-3017
NA	NA	NA	NA	4	Low	4	3	42	12	Bright Horizons Family Sol. (3)			NA	NA					800-426-9157
1.7	8.4	NA	NA	43	Low	2	100	27	12	Royal Dutch Petroleum (2)	Average	IV 98	17.2	III 98	-13.7				800-448-2430
NA	NA	NA	NA	4	Average	1	30	28	0	Brinson Emg. Mkt. Debt (5)			NA	NA					800-448-2430
NA	NA	NA	NA	1	Low	1	1	29	16	Lockheed Martin (5)			NA	NA					800-448-2430
9.9	22.7	NA	NA	11	Low	8	2	33	54	Microsoft (3)	Low	IV 98	21.4	III 98	-9.9				800-730-1313
8.14	9.9	NA	NA	32	Average	9	98	31	14	Credito Italiano (2)	Average	I 98	19.4	III 98	-16.6				800-730-1313
4.16	16.2	NA	NA	131	Very high	54	2	37	13	Viacom Cl. B (4)	Very low	IV 95	11.0	I 95	-1.2				800-237-7073
8.9.7	11.5	9.0	NA	3442	Very high	3	4	35	-10	Cardinal Health (2)	Low	IV 98	12.4	III 98	-6.5				800-368-2748
6.7.1	NA	NA	NA	43	Average	8	99	26	15	Zurich Allied (3)	Average	IV 98	18.0	III 98	-14.8				800-368-2748
7.12.4	14.7	12.6	NA	2232	Low	26	41	19	25	First Union (3)	Very low	IV 96	9.8	I 94	-5.8				800-421-4120
4.13.2	NA	NA	NA	32	Low	17	64	25	19	Deutsche Telekom (2)	Low	IV 98	15.0	III 98	-9.7				800-421-4120
IA	NA	NA	NA	1	Average	3	5	32	33	General Electric (3)			NA	NA					800-422-2080
6.17.9	18.2	16.3	NA	1231	Very low	2	NA	21	73	Progressive (9)	Average	II 97	19.9	III 98	-17.4				800-321-1928
5.9.3	21.1	16.4	NA	1132	Very high	0	10	22	8	Nokia Cl. A ADR (6)	High	IV 98	29.4	III 98	-21.7				800-345-4048
2.7.1	13.8	10.7	NA	2143	Very high	0	18	31	0	Philip Morris (7)	Average	IV 98	19.3	III 98	-13.8				800-345-4048
IA	NA	NA	NA	3	High	1	NA	20	-18	SL Green Realty (8)			NA	NA					800-345-4048
3.12.0	19.9	18.2	NA	1132	Average	3	3	29	25	Liberty Media Cl. A (3)	Average	IV 98	17.5	III 98	-19.6				800-348-4782
8.14.2	21.6	19.1	NA	1232	Average	11	2	31	25	Philip Morris (2)	Average	IV 98	16.6	III 98	-12.2				800-348-4782
4.9.9	NA	NA	NA	24	High	3	4	28	22	Jones Apparel Group (3)	Very high	IV 98	24.7	III 98	-29.3				800-525-3863
A	NA	NA	NA	1	Low	4	NA	39	28	Freddie Mac (2)			NA	NA					800-992-8151
0.23.0	NA	NA	NA	11	Low	6	NA	38	40	EMC/Mass. (4)	Average	IV 98	23.7	III 98	-9.0				800-992-8151
0.8.0	NA	NA	NA	343	High	1	2	24	4	AT&T (3)	Low	II 97	12.3	III 98	-8.6				800-721-1899
1.17.9	NA	NA	NA	321	Average	7	1	44	26	Microsoft (7)	Average	IV 98	22.6	III 98	-7.7				800-721-1899
A	NA	NA	NA	3	Low	3	24	25	9	National Rural Utils. Coop. (1)			NA	NA					800-846-5200
A	NA	NA	NA	3	Low	4	34	23	9	National Rural Utils. Coop. (1)			NA	NA					800-846-5200
A	NA	NA	NA	1	Very low	1	0	39	47	Microsoft (8)			NA	NA					800-223-7010
3.18.0	17.6	14.7	NA	3211	Low	36	5	23	14	Philip Morris (12)	Low	II 97	14.2	I 94	-4.8				800-776-5033
6.8.8	NA	NA	NA	33	Low	4	NA	23	0	Vornado Realty Trust (7)	Average	IV 96	19.7	III 98	-11.9				800-437-9912
9.13.0	14.2	11.8	NA	3332	Average	3	17	22	27	Bristol-Myers Squibb (2)	Low	II 97	15.6	III 98	-7.5				800-426-3750
8.16.9	16.7	13.7	NA	2312	Average	3	NA	28	33	Kroger (3)	Average	IV 98	19.7	III 98	-15.6				800-426-3750
0.14.1	11.4	10.9	NA	1213	Low	11	0	19	2	Qlogic (2)	High	IV 98	18.7	III 98	-26.1				800-426-3750
3.16.8	NA	NA	NA	21	Average	5	NA	29	26	Citigroup (3)	Average	IV 98	21.4	III 98	-14.2				800-426-3750
1.12.8	NA	NA	NA	32	Very low	1	13	26	38	GTE (4)	Low	IV 97	14.7	I 94	-9.2				800-426-3750

DATA: MORNINGSTAR, INC., CHICAGO, IL.

MUTUAL FUND SCOREBOARD

FUND	OVERALL RATING (COMPARES RISK-ADJUSTED PERFORMANCE OF EACH FUND AGAINST ALL FUNDS)	CATEGORY	RATING (COMPARES RISK-ADJUSTED PERFORMANCE OF FUND WITHIN CATEGORY)	SIZE ASSETS \$MIL.	% CHG. 1997-98	FEES SALES CHARGE (%)	EXPENSE RATIO (%)	1998 RE PRE- TAX
COLUMBIA BALANCED	A	Domestic Hybrid	A	925.8	17	No load	0.68	20.1
COLUMBIA COMMON STOCK	A	Large-cap Blend	B+	754.5	-4	No load	0.77	26.3
COLUMBIA GROWTH	B	Large-cap Growth	B	1588.2	20	No load	0.71	30.3
COLUMBIA SPECIAL	C-	Mid-cap Growth	B	869.0	-30	No load	0.98	16.6
CONCERT INVMT. GROWTH & INCOME B (n)		Large-cap Blend		1191.4	-1	5.00**	1.88†	18.1
CONCERT INVESTMENT GROWTH B (o)		Large-cap Blend		4105.5	2	5.00**	1.88†	27.3
CRABBE HUSON EQUITY A (p)	C-	Mid-cap Value	F	205.7	-46	No load	1.42†	-8.8
DAVIS FINANCIAL A	B+	Financial	B	460.7	60	4.75	1.07†	14.2
DAVIS N.Y. VENTURE A	B	Large-cap Value	C-	6820.3	47	4.75	0.91†	14.7
DELAWARE A	B+	Domestic Hybrid	B	640.6	12	5.75	0.97†	17.4
DELAWARE DECATUR INCOME A	B	Large-cap Value	C	1947.0	0	5.75	0.88†	9.9
DELAWARE DECATUR T/R A	B	Large-cap Value	C	1014.4	13	5.75	1.13†	10.6
DELAWARE DELCAP A	D	Mid-cap Growth	C	674.4	-10	5.75	1.36†	17.7
DELAWARE SMALL CAP VALUE A	C	Small-cap Value	C	282.2	0	5.75	1.39†	-5.1
DELAWARE TREND A	D	Small-cap Growth	B	446.8	-11	5.75	1.34†	13.6
DFA INTERNATIONAL SMALL COMPANY		Foreign		272.7	34	No load	0.75	8.2
DODGE & COX BALANCED	B+	Domestic Hybrid	B	5770.0	14	No load	0.55	6.7
DODGE & COX STOCK	B	Large-cap Value	C	4458.4	9	No load	0.57	5.4
DOMINI SOCIAL EQUITY	A	Large-cap Blend	A	635.8	111	No load	1.17†	33.0
DREYFUS	C-	Large-cap Value	F	2591.1	-1	No load	0.71	17.2
DREYFUS APPRECIATION	A	Large-cap Growth	A	4168.9	111	No load	0.87	30.9
DREYFUS BALANCED	B+	Domestic Hybrid	B	322.1	-13	No load	0.96	9.7
DREYFUS DISCIPLINE STOCK	B+	Large-cap Blend	B	2817.6	71	No load	0.90†	26.6
DREYFUS GROWTH & INCOME	C	Large-cap Value	D	1777.5	-9	No load	1.01	12.8
DREYFUS GROWTH OPPORTUNITY	C	Large-cap Value	D	469.4	-6	No load	1.06	16.1
DREYFUS MIDCAP INDEX	C	Mid-cap Blend	C	273.0	6	1.00*	0.50	18.4
DREYFUS NEW LEADERS	C-	Mid-cap Blend	C-	691.5	-20	1.00*	1.12	-4.0
DREYFUS PREMIER CORE VALUE A (q)	C	Large-cap Value	D	556.2	-5	5.75	1.14†	7.1
DREYFUS PREMIER WORLDWIDE GROWTH B	B+	World	A	658.5	121	4.00**	2.00†	27.7
DREYFUS S&P 500 INDEX	A	Large-cap Blend	B+	2153.1	50	1.00*	0.50	28.1
DREYFUS SMALL COMPANY VALUE	C	Small-cap Value	C	327.4	-19	1.00*	1.21	-6.3
DREYFUS THIRD CENTURY	C	Large-cap Growth	C	1049.0	30	No load	0.97	30.2
DRIEHAUS INTERNATIONAL GROWTH		Foreign		222.3	22	No load	2.11	15.2
EATON VANCE BALANCED A (r)	B+	Domestic Hybrid	C	271.2	3	5.75	0.97	13.4
EATON VANCE TAX-MGD. GROWTH B		Large-cap Blend		2194.1	205	5.00**	1.50†	24.5
EATON VANCE UTILITIES A (s)	C	Utilities	D	409.3	12	5.75	1.13	23.6
ENTERPRISE GROWTH A	B+	Large-cap Growth	B	827.6	95	4.75	1.43†	30.9
EUROPACIFIC GROWTH	C	Foreign	A	20797.9	10	5.75	0.86†	15.5
EVERGREEN B		Mid-cap Blend		727.7	32	5.00**	2.19†	6.2
EVERGREEN BALANCED B (t)	B+	Domestic Hybrid	C	557.9	360	5.00**	1.35†	12.7
EVERGREEN FOUNDATION B		Domestic Hybrid		1372.2	47	5.00**	2.04†	11.1
EVERGREEN GROWTH & INCOME B		Mid-cap Blend		1014.0	41	5.00**	2.21†	4.4
EVERGREEN SMALL CO. GROWTH B (u)	D	Small-cap Growth	D	218.7	-84	5.00**	1.36†	-17.0
EVERGREEN TAX STRATEGIC B		Domestic Hybrid		248.0	88	5.00**	2.18†	5.0
EVERGREEN VALUE A	C	Large-cap Value	C-	467.7	18	4.75	1.01†	9.5
EXCELSIOR BLENDED EQUITY A	B	Large-cap Blend	C	665.0	23	No load	0.99	28.7
EXCELSIOR INTERNATIONAL	D	Foreign	C-	230.1	29	No load	1.43	7.9
EXCELSIOR VALUE & RESTRUCT. A	B	Mid-cap Blend	B+	597.1	160	No load	0.89	10.3
EXECUTIVE INVESTORS BLUE CHIP	B+	Large-cap Blend	B	419.5	0	4.75	0.75†	17.8
EXPEDITION EQUITY INSTITUTIONAL		Large-cap Blend		319.0	28	No load	1.09	28.5
FAM VALUE	B	Small-cap Value	A	357.7	8	No load	1.24	6.2
FASCIANO	B	Small-cap Growth	A	233.2	318	No load	1.30	7.2
FEDERATED AMERICAN LEADERS B		Large-cap Value		1620.7	72	5.50**	1.89†	16.6
FEDERATED EQUITY-INCOME B		Large-cap Blend		1224.1	47	5.50**	1.84†	14.9
FEDERATED GROWTH STRAT. A	C-	Mid-cap Growth	B	601.5	23	5.50	1.14	16.3
FEDERATED SMALL CAP STRAT. B		Small-cap Blend		234.2	22	5.50**	2.19†	0.9
FEDERATED STOCK & BOND A	B+	Domestic Hybrid	B	206.2	23	5.50	1.21†	11.2
FEDERATED STOCK	B+	Large-cap Value	B+	1534.2	26	No load	0.99	17.3
FEDERATED UTILITY A	C	Utilities	C	809.8	4	5.50	1.14	13.7
FIDELITY ADVISOR BALANCED T	C	Domestic Hybrid	D	2997.2	0	3.50	1.17†	15.5
FIDELITY ADVISOR EQUITY GROWTH T	B	Large-cap Growth	B	5194.8	25	3.50	1.29†	38.7
FIDELITY ADVISOR EQUITY INCOME T	B	Large-cap Value	B	2637.0	17	3.50	1.21†	16.1
FIDELITY ADVISOR GROWTH & INCOME T		Large-cap Blend		399.6	176	3.50	1.59†	30.3
FIDELITY ADVISOR GROWTH OPP. T	B+	Large-cap Value	B+	24823.6	18	3.50	1.27†	24.0
FIDELITY ADVISOR MIDCAP T		Mid-cap Blend		367.2	8	3.50	1.44†	14.4
FIDELITY ADVISOR NATURAL RES. T	D	Natural Resources	C	279.5	-45	3.50	1.39†	-16.3
FIDELITY ADVISOR OVERSEAS T.	C-	Foreign	B	1138.1	3	3.50	1.65†	11.3
FIDELITY ADVISOR STRAT. OPP. T	C-	Small-cap Blend	C	444.8	-15	3.50	1.23†	0.8
FIDELITY ASSET MANAGER	B	Domestic Hybrid	C-	12879.2	6	No load	0.74	16.1
FIDELITY ASSET MANAGER: GROWTH	C	Domestic Hybrid	D	5119.9	10	No load	0.80	18.1

*Includes redemption fee. **Includes deferred sales charge. †112(b)-1 plan in effect. ‡Not currently accepting new accounts. \$Less than 0.5% of assets. NA=Not available. (n) Formerly Common Sense Growth & Income B. (o) Formerly Common Sense Growth B. (p) Formerly Crabbe Huson Equity Prim. (q) Formerly Dreyfus Core Value Inv. (r) International Investors. (s) Formerly E. Traditional Total Return. (t) Formerly Keystone Balanced K-1. (u) Formerly Keystone Small Company Growth S-4.

Equity Funds

ANNUAL TOTAL RETURNS (%) HISTORY										PORTFOLIO DATA				RISK		TELEPHONE	
5 YEARS		10 YEARS		RESULTS VS. ALL FUNDS	TURNOVER	CASH %	FOREIGN %	P-E RATIO	UNTAXED GAINS (%)	LARGEST HOLDING COMPANY (% ASSETS)	LEVEL	BEST		WORST			
RETAX	AFTER TAX	RETAX	AFTER TAX									QTR	%RET	QTR	%RET		
4.8	12.2	NA	NA	32	High	1	2	37	17	Microsoft (3)	Very low	IV 98	12.9	III 98	-4.8	800-547-1707	
0.6	17.7	NA	NA	11	Average	2	1	37	29	Microsoft (4)	Low	IV 98	23.3	III 98	-11.5	800-547-1707	
1.3	18.2	18.8	15.4	22111	High	1	NA	42	39	Microsoft (4)	Average	IV 98	25.6	III 98	-14.6	800-547-1707	
4.5	11.4	16.8	14.1	21113	High	16	2	41	30	American Stores (5)	High	IV 98	23.2	III 98	-12.8	800-547-1707	
NA	NA	NA	NA	2	Average	1	7	29	7	Dell Computer (3)			NA		NA	800-544-5445	
NA	NA	NA	NA	1	High	5	4	36	6	MCI WorldCom (3)			NA		NA	800-544-5445	
0.0	7.6	NA	NA	134	High	5	1	24	0	Amgen (4)	High	II 97	18.8	III 98	-19.9	800-541-9732	
5.5	23.9	NA	NA	111	Very low	1	4	23	74	American Express (7)	Average	IV 98	20.1	III 98	-15.9	800-279-0279	
1.8	20.1	20.4	18.0	11111	Very low	4	5	25	26	American Express (6)	Average	IV 98	21.4	III 98	-14.4	800-279-0279	
5.6	12.7	14.4	11.6	23332	Average	3	4	28	24	Rite Aid (4)	Very low	IV 98	15.1	III 98	-5.5	800-523-4640	
7.7	13.5	13.9	10.2	43222	Average	2	10	27	5	Bestfoods (3)	Low	II 97	13.7	III 98	-9.8	800-523-4640	
8.8	15.3	15.2	12.0	33322	Average	4	10	27	12	Bestfoods (3)	Low	II 97	15.3	III 98	-10.9	800-523-4640	
3.4	9.6	14.7	12.4	13223	High	9	NA	43	24	Staples (5)	High	IV 98	24.7	III 98	-16.3	800-523-4640	
2.1	10.2	15.4	13.6	21223	Average	4	NA	20	21	Trigon Healthcare (2)	Average	II 97	15.3	III 98	-16.0	800-523-4640	
1.0	11.3	19.0	15.7	11113	High	6	3	45	24	EMC/Mass. (4)	High	IV 98	22.9	III 98	-15.8	800-523-4640	
NA	NA	NA	NA			4	NA	NA	21	NA			NA		NA	310-395-8005	
1.2	12.2	14.1	12.1	23233	Low	4	9	24	13	ALCOA (2)	Very low	II 97	11.0	III 98	-7.9	800-621-3979	
1.3	16.5	16.1	14.3	23112	Low	5	9	24	18	Pharmacia & Upjohn (3)	Average	II 97	15.4	III 98	-14.3	800-621-3979	
1.3	23.8	NA	NA	3111	Very low	1	0	34	32	Microsoft (6)	Low	IV 98	24.6	III 98	-9.8	800-762-6814	
2.2	7.9	11.8	8.5	34333	Very high	3	4	25	22	General Electric (3)	Average	IV 98	20.3	III 98	-12.9	800-373-9387	
1.6	24.1	18.5	17.5	24111	Very low	4	6	31	32	Pfizer (6)	Low	IV 98	20.5	III 98	-10.2	800-373-9387	
1.3	10.6	NA	NA	33	Very high	12	3	27	7	Biogen (2)	Very low	IV 98	10.8	III 98	-7.1	800-373-9387	
1.1	21.0	19.9	17.9	13111	Average	1	4	32	25	Microsoft (3)	Average	IV 98	22.6	III 98	-12.2	800-373-9387	
1.2	9.2	NA	NA	33	High	14	3	26	14	Biogen (3)	Average	IV 98	18.5	III 98	-11.7	800-373-9387	
1.5	10.0	12.0	8.6	44322	High	4	5	26	24	Coastal (3)	Average	IV 98	20.5	III 98	-11.4	800-373-9387	
1.2	15.4	NA	NA	1211	Low	8	0	31	15	America Online (3)	Average	IV 98	27.8	III 98	-14.6	800-373-9387	
1.8	9.6	14.2	11.7	21244	Average	11	4	29	26	Metromedia Fiber Net Cl. A (2)	High	II 97	17.8	III 98	-20.4	800-373-9387	
1.2	12.6	13.6	9.6	43112	Average	2	8	23	13	Waste Management (2)	Average	II 97	15.3	III 98	-14.6	888-338-8084	
1.8	19.6	NA	NA	21	Very low	8	38	30	25	Pfizer (5)	Low	IV 98	19.9	III 98	-13.0	800-554-4611	
1.4	21.8	NA	NA	3111	Very low	3	2	33	38	Microsoft (3)	Low	IV 98	21.3	III 98	-10.1	800-373-9387	
1.4	14.3	NA	NA	13	High	1	2	23	-7	Emmis Broadcasting Cl. A (2)	Average	IV 98	24.6	III 98	-27.2	800-373-9387	
1.4	17.6	16.8	14.2	24211	Average	4	NA	36	35	Merck (4)	Average	IV 98	24.3	III 98	-11.4	800-373-9387	
1.4	NA	NA	NA			6	100	36	7	Nokia Cl. A ADR (3)			NA		NA	800-560-6111	
1.8	11.4	13.3	9.9	33332	Low	3	13	33	21	Sofamor/Danek Group (3)	Very low	II 97	11.2	III 98	-5.2	800-225-6265	
1.4	NA	NA	NA	1	Very low	6	6	36	16	Automatic Data Processing (2)			NA		NA	800-225-6265	
1.5	8.8	12.8	9.6	22442	High	3	30	26	33	Energis (17)	Low	IV 98	14.4	I 94	-7.7	800-225-6265	
1.0	24.5	20.3	18.1	22111	Low	4	NA	40	31	Bristol-Myers Squibb (4)	Average	IV 98	26.8	III 98	-14.0	800-432-4320	
1.3	9.6	13.3	11.9	31333	Low	14	100	27	24	Mannesmann (3)	Average	IV 98	17.9	III 98	-13.6	800-421-4120	
1.3	NA	NA	NA	2	Very low	18	1	27	44	Clear Channel Communs. (4)			NA		NA	800-343-2898	
1.5	10.7	12.1	9.5	34332	Average	4	1	33	24	Johnson & Johnson (2)	Very low	II 97	10.4	I 94	-4.4	800-343-2898	
1.4	NA	NA	NA	2	Very low	11	3	29	24	Intel (3)			NA		NA	800-343-2898	
1.4	NA	NA	NA	2	Low	15	3	28	21	Webster Financial (1)			NA		NA	800-343-2898	
1.3	1.9	13.6	10.3	11244	High	8	1	30	-13	DeVry (2)	Very high	II 97	17.9	III 98	-29.4	800-343-2898	
1.4	NA	NA	NA	3	Average	1	4	25	8	Perkin-Elmer (1)			NA		NA	800-343-2898	
1.1	13.7	14.8	11.9	24222	Average	9	3	30	28	General Electric (3)	Average	II 97	11.7	III 98	-9.2	800-343-2898	
1.9	19.2	18.1	16.6	32231	Low	0	4	33	55	Pfizer (5)	Average	IV 98	22.4	III 98	-12.1	800-446-1012	
1.9	5.1	6.9	6.1	43444	High	6	99	27	13	Brambles Industries (3)	High	IV 98	16.3	III 98	-14.9	800-446-1012	
1.3	20.5	NA	NA	111	Low	-2	12	28	15	Philip Morris (3)	Average	IV 98	22.9	III 98	-20.5	800-446-1012	
1.3	17.2	NA	NA	4112	High	12	3	33	9	General Electric (3)	Low	IV 98	19.7	III 98	-13.1	800-423-4026	
1.4	NA	NA	NA			1	NA	36	25	McKesson (4)					NA	800-922-2085	
1.0	14.8	16.0	15.0	13222	Very low	12	NA	18	38	Conmed (6)	Low	III 97	17.0	III 98	-15.2	800-932-3271	
1.5	16.0	15.6	14.1	14113	Average	20	NA	27	5	Pulitzer Publishing (4)	Average	II 97	14.3	III 98	-13.4	800-848-6050	
1.4	NA	NA	NA	1	Average	1	5	26	13	PECO Energy (3)			NA		NA	800-341-7400	
1.4	NA	NA	NA	2	Average	4	5	27	16	Bristol-Myers Squibb (2)			NA		NA	800-341-7400	
1.6	14.0	15.8	12.8	14222	High	3	3	42	25	America Online (2)	High	IV 98	27.3	III 98	-20.3	800-341-7400	
1.4	NA	NA	NA	4	High	3	2	30	12	S&P 500 Index (Fut.) (6)			NA		NA	800-341-7400	
1.9	10.8	11.8	9.0	34332	Average	4	6	26	13	Federated High-Yield (4)	Very low	II 97	10.5	III 98	-5.2	800-341-7400	
1.9	17.4	16.2	13.0	32111	Average	1	6	26	24	Lexmark International Cl. A (2)	Low	IV 98	16.5	III 98	-11.3	800-341-7400	
1.2	10.2	14.0	11.2	22442	High	11	3	22	19	PECO Energy (3)	Low	IV 97	12.9	I 94	-7.2	800-341-7400	
1.5	8.8	13.4	11.1	22442	Average	5	9	29	21	American Home Products (2)	Low	II 97	12.6	III 98	-5.9	800-522-7297	
1.5	20.4	NA	NA	11	High	6	2	38	36	Johnson & Johnson (3)	Average	IV 98	24.1	III 98	-6.0	800-522-7297	
1.3	17.3	NA	NA	12	Average	3	8	24	29	Citicorp (3)	Low	IV 98	17.8	III 98	-12.3	800-522-7297	
1.4	NA	NA	NA		Average	10	6	33	15	Time Warner (3)			NA		NA	800-843-3001	
1.3	19.1	20.2	18.3	11121	Low	7	12	29	2	Fannie Mae (5)	Low	IV 98	20.5	III 98	-7.7	800-522-7297	
1.4	NA	NA	NA	2	Very high	8	1	30	16	McKesson (3)			NA		NA	800-522-7297	
1.4	4.6	11.9	9.8	11114	High	5	29	23	-24	Total Cl. B ADR (6)	High	III 97	14.2	IV 97	-13.2	800-522-7297	
1.4	8.2	NA	NA	243	Average	8	98	24	-2	Alcatel Alsthom (2)	Average	IV 98	17.3	III 98	-17.8	800-522-7297	
1.5	8.6	13.0	10.6	22333	High	1	6	20	17	Whole Foods Market (8)	High	III 97	18.1	III 98	-18.0	800-522-7297	
1.5	9.5	13.9	11.6	22442	High	13	2	34	14	Philip Morris (2)	Low	IV 98	14.1	III 98	-5.8	800-544-8888	
1.5	12.0	NA	NA	42	High	6	NA	31	16	BellSouth (5)	Low	IV 98	16.1	III 98	-8.2	800-544-8888	

DATA: MORNINGSTAR, INC., CHICAGO, IL.

MUTUAL FUND SCOREBOARD

FUND	OVERALL RATING (COMPARES RISK-ADJUSTED PERFORMANCE OF EACH FUND AGAINST ALL FUNDS)	CATEGORY	RATING (COMPARES RISK-ADJUSTED PERFORMANCE OF FUND WITHIN CATEGORY)	SIZE ASSETS \$MIL.	% CHG. 1997-98	FEES SALES CHARGE (%)	EXPENSE RATIO (%)	1998 RE- TURN PRE- TAX
FIDELITY ASSET MANAGER: INCOME	A	Domestic Hybrid	B+	940.8	37	No load	0.69	10.3
FIDELITY BALANCED	B	Domestic Hybrid	C	5316.4	24	No load	0.67	20.2
FIDELITY BLUE CHIP GROWTH	B+	Large-cap Blend	B	19904.1	48	No load	0.70	34.8
FIDELITY CAPITAL APPRECIATION	C	Mid-cap Blend	C	2602.3	23	No load	0.67	17.0
FIDELITY CONTRAFUND	B+	Large-cap Blend	C	38821.3	26	3.00†	0.67	31.5
FIDELITY DESTINY I	A	Large-cap Value	B+	7365.3	20	8.67	0.33	25.6
FIDELITY DESTINY II	B+	Large-cap Value	B+	4997.0	31	8.67	0.48	28.1
FIDELITY DISCIPLINED EQUITY	B	Large-cap Blend	C-	3145.4	23	No load	0.64	21.8
FIDELITY DIVERSIFIED INTERNATIONAL	C	Foreign	A	2156.9	40	No load	1.23	14.4
FIDELITY DIVIDEND GROWTH	A	Large-cap Blend	A	10368.6	131	No load	0.86	35.9
FIDELITY EMERGING GROWTH	C-	Mid-cap Growth	B	2897.0	46	0.75*	1.05	43.3
FIDELITY EMERGING MARKETS	F	Diversified Emerging Mkts.	F	270.4	-39	4.50*	1.35	-26.6
FIDELITY EQUITY-INCOME	B	Large-cap Value	C	23707.4	12	No load	0.65	12.5
FIDELITY EQUITY-INCOME II	B+	Large-cap Value	B	19453.7	15	No load	0.68	23.0
FIDELITY EUROPE CAPITAL APPREC.	C	Europe	C-	689.9	86	4.00*	1.07	21.7
FIDELITY EUROPE	B	Europe	B	1622.6	71	4.00*	1.18	20.8
FIDELITY EXPORT & MULTINATIONAL	A	Mid-cap Growth	A	411.9	-11	3.75*	0.88	22.4
FIDELITY FREEDOM 2000	A	Domestic Hybrid	B	502.1	517	No load	0.08	15.2
FIDELITY FREEDOM 2010	A	Domestic Hybrid	B	914.3	642	No load	0.08	19.3
FIDELITY FREEDOM 2020	A	Large-cap Blend	B	859.6	923	No load	0.08	21.7
FIDELITY FREEDOM 2030	A	Large-cap Blend	B	282.4	395	No load	0.08	22.0
FIDELITY	A	Large-cap Blend	B+	10563.2	62	No load	0.56	31.0
FIDELITY GROWTH & INCOME	A	Large-cap Blend	A	48639.8	33	No load†	0.68	28.3
FIDELITY GROWTH COMPANY	C	Large-cap Growth	C-	11440.4	9	No load	0.68	27.2
FIDELITY INTL. GROWTH & INCOME	C-	Foreign	B+	871.0	-15	No load	1.15	10.0
FIDELITY INTERNATIONAL VALUE	A	Foreign	A	435.8	12	No load	1.28	11.7
FIDELITY JAPAN	F	Japan	C-	312.5	45	4.50*	1.40	13.1
FIDELITY LARGE CAP STOCK	A	Large-cap Growth	A	317.0	127	No load	0.84	36.5
FIDELITY LATIN AMERICA	F	Latin America	C-	307.0	-64	4.50*	1.29	-38.3
FIDELITY LOW-PRICED STOCK	B	Small-cap Value	B+	9194.9	-14	4.50*†	0.95	0.4
FIDELITY MAGELLAN	C	Large-cap Blend	C-	83552.1	31	3.00†	0.61	33.6
FIDELITY MID-CAP STOCK	A	Mid-cap Blend	A	1784.5	1	No load	0.86	15.2
FIDELITY NEW MILLENNIUM	C	Mid-cap Growth	B+	1683.7	8	3.00†	0.94	27.7
FIDELITY OTC	C	Mid-cap Growth	B+	5476.4	42	No load	0.75	40.4
FIDELITY OVERSEAS	C-	Foreign	B	3846.5	4	No load	1.20	12.8
FIDELITY PACIFIC BASIN	F	Diversified Pacific/Asia	B	227.4	6	4.00*	1.31	8.3
FIDELITY PURITAN	B+	Domestic Hybrid	B	25682.3	13	No load	0.63	16.6
FIDELITY REAL ESTATE INVESTMENT	C-	Real Estate	C	1239.3	-48	0.75*	0.90	-18.6
FIDELITY RETIREMENT GROWTH	C	Large Blend	D	4946.2	26	No load	0.59	35.9
FIDELITY SEL. BIOTECHNOLOGY	D	Health	C-	704.4	28	3.75*	1.47	29.7
FIDELITY SEL. BROKERAGE & INVESTMENT	C-	Financial	F	550.5	-15	3.75*	1.29	5.7
FIDELITY SEL. COMPUTERS	C-	Technology	B	1514.4	166	3.75*	1.34	96.4
FIDELITY SEL. DEVELOP. COMMUN.	D	Communications	D	445.3	119	3.75*	1.55	67.7
FIDELITY SEL. ELECTRONICS	C-	Technology	B	2722.8	18	3.75*	1.12	51.1
FIDELITY SEL. ENERGY SERVICE	F	Natural Resources	D	394.1	-65	3.75*	1.22	-49.7
FIDELITY SEL. FINANCIAL SERVICES	C	Financial	C-	597.3	9	3.75*	1.29	14.1
FIDELITY SEL. FOOD & AGRICULTURE	B+	Unaligned	A	233.6	-24	3.75*	1.48	15.6
FIDELITY SEL. GOLD	F	Precious Metals	C	201.7	-5	3.75*	1.48	-8.6
FIDELITY SEL. HEALTH CARE	A	Health	B+	3032.1	86	3.75*	1.18	41.2
FIDELITY SEL. HOME FINANCE	C	Financial	D	990.3	-40	3.75*	1.19	-14.8
FIDELITY SEL. LEISURE	C	Unaligned	B+	315.4	38	3.75*	1.39	37.9
FIDELITY SEL. REGIONAL BANKS	B	Financial	C	1178.5	-13	3.75*	1.24	11.7
FIDELITY SEL. RETAILING	C	Unaligned	B	362.1	89	3.75*	1.55	45.8
FIDELITY SEL. SOFTWARE & COMPUTERS	C-	Technology	C-	656.2	54	3.75*	1.42	45.8
FIDELITY SEL. TECHNOLOGY	C	Technology	C	1061.3	102	3.75*	1.30	74.2
FIDELITY SEL. TELECOMMUNICATIONS	C	Communications	C	810.6	84	3.75*	1.48	41.0
FIDELITY SEL. UTILITIES GROWTH	B+	Utilities	B+	504.1	40	3.75*	1.30	43.1
FIDELITY SMALL CAP SELECTOR (w)	D	Small-cap Blend	C-	748.0	-9	1.50*	0.97	-7.4
FIDELITY SOUTHEAST ASIA	F	Pacific/Asia ex-Japan	C	235.2	-11	4.50*	1.32	-5.8
FIDELITY SPARTAN MARKET INDEX	A	Large-cap Blend	B+	7149.9	85	0.50*	0.19	28.5
FIDELITY STOCK SELECTOR	C-	Large-cap Blend	D	1747.0	-8	No load	0.69	14.7
FIDELITY TREND	D	Mid-cap Blend	F	1198.4	-16	No load	0.59	2.8
FIDELITY UTILITIES	B+	Utilities	B+	2128.5	25	No load	0.85	28.5
FIDELITY VALUE	C	Mid-cap Value	C	5522.6	-30	No load	0.61	0.2
FIDELITY WORLDWIDE	C-	World	C	1013.6	-12	No load	1.16	7.2
FIFTH THIRD CARDINAL A (x)	B	Large-cap Blend	C	253.1	-15	4.50	1.06†	24.2
FIRST AMERICAN MID CAP GROWTH A (y)	C-	Mid-cap Growth	C	213.0	-19	4.00	1.18†	10.6
FIRST AMERICAN STRATEGIC GROWTH & INC.	B+	Domestic Hybrid	B+	212.6	9	No load	0.25	7.7
FIRST EAGLE FUND OF AMERICA Y	B+	Mid-cap Value	B+	456.5	70	No load	1.70	21.0
FIRST INVESTORS BLUE CHIP A	B	Large-cap Blend	C-	418.2	19	6.25	1.44†	18.1

*Includes redemption fee. **Includes deferred sales charge. †12(b)-1 plan in effect. ‡Not currently accepting new accounts. \$Less than 0.5% of assets. NA=Not available. N (v) Formerly Fidelity Select American Gold. (w) Formerly Fidelity Small Cap Stock. (x) Formerly Cardinal Inv. (y) Formerly Piper Emerging Growth A.

Equity Funds

ANNUAL TOTAL RETURNS (%) HISTORY										PORTFOLIO DATA		RISK				TELEPHONE
5 YEARS PRETAX	5 YEARS AFTER TAX	10 YEARS PRETAX	10 YEARS AFTER TAX	RESULTS VS. ALL FUNDS	TURNOVER	CASH %	FOREIGN %	P-E RATIO	UNTAXED GAINS (%)	LARGEST HOLDING COMPANY (% ASSETS)	LEVEL	BEST QTR	%RET	WORST QTR	%RET	
9.0	7.0	NA	NA	43	High	33	12	31	6	BellSouth (1)	Very low	II 97	5.7	I 94	-2.0	800-544-8888
12.0	9.9	13.1	10.5	2242	High	7	3	28	17	Unisys (3)	Very low	IV 98	12.7	III 98	-4.4	800-544-8888
22.7	20.8	23.2	21.3	1111	Average	4	3	38	37	Microsoft (3)	Average	IV 98	23.4	III 98	-8.1	800-544-8888
15.7	12.7	14.3	11.3	4232	High	3	6	30	22	Electronic Data Systems (6)	Average	IV 98	24.8	III 98	-15.8	800-544-8888
21.6	19.2	24.0	21.7	1111	High	13	7	40	37	WorldCom (3)	Average	IV 98	23.7	III 98	-9.4	800-544-8888
22.8	19.1	21.2	17.4	1111	Low	5	10	29	43	Fannie Mae (7)	Low	IV 98	20.8	III 98	-7.1	800-752-2347
22.7	19.2	21.6	18.1	1111	High	8	4	36	25	Time Warner (4)	Low	IV 98	25.6	III 98	-10.9	800-752-2347
20.0	17.1	19.4	17.0	1221	High	1	1	26	29	Microsoft (3)	Average	IV 98	21.0	III 98	-13.1	800-544-8888
13.2	12.0	NA	NA	33	Average	15	97	29	16	Novartis (Reg.) (2)	Average	IV 98	15.3	III 98	-14.5	800-544-8888
26.5	24.4	NA	NA	11	High	5	4	30	21	American Home Products (5)	Low	IV 98	19.5	III 98	-6.2	800-544-8888
21.9	19.6	NA	NA	111	Very high	3	4	45	28	McKesson (7)	High	IV 98	26.1	II 94	-10.2	800-544-8888
17.6	17.9	NA	NA	144	Average	7	99	12	NA	Telebras (ADR) (5)	Very high	III 94	24.2	III 98	-24.4	800-544-8888
18.5	16.1	15.7	13.4	4122	Low	2	11	24	36	General Electric (4)	Low	IV 98	16.2	III 98	-12.9	800-544-8888
19.3	16.9	NA	NA	121	Average	8	9	27	35	Citicorp (5)	Low	IV 98	20.6	III 98	-12.0	800-544-8888
18.6	16.7	NA	NA	31	Very high	4	100	25	20	Alcatel Alsthom (2)	Average	I 98	22.7	III 98	-19.9	800-544-8888
18.7	16.9	14.4	13.2	4321	Average	4	99	31	25	Novartis (Reg.) (3)	Average	I 98	19.0	III 98	-17.4	800-544-8888
NA	NA	NA	NA	1	Very high	9	4	45	23	MCI Communications (5)		NA	NA	NA	NA	800-544-8888
NA	NA	NA	NA		Low	17	20	24	6	Fidelity Money: Retire. M (17)		NA	NA	NA	NA	800-544-8888
NA	NA	NA	NA		Low	9	21	26	8	Fidelity Govt. Income (11)		NA	NA	NA	NA	800-544-8888
NA	NA	NA	NA		Very low	0	19	28	10	Fidelity Growth Company (10)		NA	NA	NA	NA	800-544-8888
NA	NA	NA	NA		Low	0	19	28	5	Fidelity Growth Company (11)		NA	NA	NA	NA	800-544-8888
3.1	20.4	18.6	15.7	2311	Average	10	6	33	32	General Electric (3)	Low	IV 98	23.8	III 98	-10.8	800-544-8888
2.7	20.7	20.3	17.7	1211	Low	7	6	32	41	General Electric (3)	Low	IV 98	20.5	III 98	-8.3	800-544-8888
9.3	17.3	20.7	18.5	1212	Average	6	4	40	36	Microsoft (3)	Average	IV 98	21.2	III 98	-8.3	800-544-8888
7.7	6.5	8.9	8.1	4343	Average	10	99	24	9	Credit Suisse Group (Reg.) (1)	Average	IV 98	16.5	III 98	-17.4	800-544-8888
NA	NA	NA	NA	4	Average	3	99	25	16	Alcatel Alsthom (2)		NA	NA	NA	NA	800-544-8888
0.4	0.1	NA	NA	44	Average	13	100	31	-19	Fuji Photo Film (3)	Very high	II 97	23.5	IV 97	-15.5	800-544-8888
NA	NA	NA	NA	1	High	6	5	40	20	General Electric (3)		NA	NA	NA	NA	800-544-8888
7.2	-7.6	NA	NA	44	Average	9	99	12	-62	Telebras (ADR) (12)	Very high	III 94	29.8	III 98	-30.8	800-544-8888
6.2	13.1	NA	NA	122	Average	10	28	16	15	Gallagher Group ADR (1)	Low	III 97	13.0	III 98	-16.8	800-544-8888
0.5	17.8	19.9	16.8	1121	Low	6	5	37	44	General Electric (4)	Average	IV 98	27.2	III 98	-11.1	800-544-8888
NA	NA	NA	NA	2	High	6	1	32	23	Medtronic (2)		NA	NA	NA	NA	800-544-8888
4.6	22.4	NA	NA	11	High	3	11	28	35	Best Buy (3)	High	IV 98	32.5	III 98	-14.7	800-544-8888
3.8	18.4	19.5	16.4	1211	High	9	1	40	33	Microsoft (3)	High	IV 98	28.9	IV 97	-11.0	800-544-8888
3.4	8.3	8.7	7.1	4343	Average	9	99	24	24	Alcatel Alsthom (2)	Average	IV 98	17.9	III 98	-17.4	800-544-8888
4.0	-4.8	1.2	0.5	4244	Low	6	100	28	-30	Toyota Motor (3)	Very high	IV 98	21.6	IV 97	-17.2	800-544-8888
5.2	12.3	14.8	11.7	3232	Average	6	9	28	20	Citicorp (3)	Very low	IV 98	12.7	III 98	-6.7	800-544-8888
6.8	7.0	11.5	9.7	3243	Average	5	4	25	6	Starwood Hotels & Resorts (8)	Average	IV 96	19.0	III 98	-11.5	800-544-8888
3.8	12.6	17.5	13.8	3131	Very high	1	14	35	19	Wal-Mart Stores (4)	Average	IV 98	21.8	III 98	-9.5	800-544-8888
4.0	12.1	21.8	19.8	1342	High	17	2	45	27	Genentech (15)	High	IV 98	26.1	I 94	-13.3	800-544-8888
1.6	18.5	20.9	20.0	3141	High	11	12	21	25	PaineWebber Group (6)	High	IV 98	29.1	III 98	-33.1	800-544-8888
1.1	32.1	28.4	26.0	1111	Very high	23	NA	50	40	Dell Computer (16)	Very high	IV 98	39.4	IV 97	-25.8	800-544-8888
1.3	18.4	NA	NA	111	Very high	11	19	47	36	Intel (10)	Very high	IV 98	48.9	I 97	-15.5	800-544-8888
1.2	33.2	29.8	27.3	1111	Very high	8	4	46	32	Intel (12)	Very high	IV 98	56.8	IV 97	-22.3	800-544-8888
1.1	8.4	9.6	8.8	1414	Average	9	10	14	-66	Baker Hughes (11)	Very high	III 97	36.9	IV 98	-34.8	800-544-8888
1.9	21.9	22.2	19.8	4111	Average	8	4	21	28	BankAmerica (New) (4)	Average	IV 98	20.2	III 98	-19.8	800-544-8888
1.0	17.0	20.4	17.4	1312	Average	7	10	31	26	Philip Morris (8)	Low	IV 98	16.8	III 98	-8.1	800-544-8888
1.0	-9.4	0.3	0.0	4144	Average	5	69	40	-52	Euro-Nevada Mining (10)	Very high	I 96	25.4	IV 97	-32.1	800-544-8888
1.5	26.5	26.4	23.0	1411	Average	15	2	44	35	Warner-Lambert (11)	Low	II 97	21.3	I 94	-7.0	800-544-8888
1.8	18.8	23.5	21.4	3112	Average	1	3	16	21	Washington Mutual (5)	High	II 97	19.4	III 98	-25.8	800-544-8888
1.2	18.0	19.1	17.0	4121	Very high	7	4	37	29	Microsoft (6)	Average	IV 98	32.2	III 98	-15.3	800-544-8888
1.6	24.6	24.5	22.1	3111	Low	5	3	21	37	US Bancorp (7)	Average	IV 98	18.7	III 98	-16.4	800-544-8888
1.6	21.4	22.5	21.0	1131	Very high	7	NA	39	26	Federated Dept. Stores (8)	High	IV 98	34.8	III 98	-14.8	800-544-8888
1.5	21.5	24.4	21.3	2111	High	9	2	46	37	Microsoft (15)	High	I 98	24.3	II 94	-17.5	800-544-8888
1.8	24.6	26.1	23.3	1111	Very high	11	11	48	37	Intel (11)	High	IV 98	46.0	IV 97	-19.9	800-544-8888
1.3	17.2	20.1	17.7	2121	High	9	12	30	27	WorldCom (10)	High	IV 98	30.7	III 98	-15.4	800-544-8888
1.9	18.0	18.5	15.7	1231	Average	6	2	26	30	MCI Communications (10)	Low	IV 98	23.0	I 94	-6.1	800-544-8888
1.4	9.1	NA	NA	34	Average	2	4	17	8	Ross Stores (2)	High	II 97	17.4	III 98	-24.5	800-544-8888
1.1	-11.4	NA	NA	44	High	7	100	19	-58	Hutchison Whampoa (7)	Very high	IV 98	25.5	IV 97	-28.6	800-544-8888
1.7	22.6	NA	NA	311	Very low	0	3	32	30	General Electric (3)	Low	IV 98	21.4	III 98	-10.0	800-544-8888
1.9	16.1	NA	NA	212	High	2	6	24	28	Lucent Technologies (2)	Average	IV 98	19.7	III 98	-15.9	800-544-8888
1.3	5.4	12.5	9.9	2144	Very high	4	22	33	16	Anchor Gaming (6)	High	IV 98	21.7	III 98	-27.0	800-544-8888
1.5	15.7	16.6	14.0	3231	Average	7	10	23	38	MCI Communications (9)	Low	IV 98	18.5	I 94	-3.7	800-544-8888
2	11.1	14.6	12.1	3113	Low	3	3	22	2	Browning-Ferris Industries (4)	Average	IV 98	14.8	III 98	-20.1	800-544-8888
1.5	8.2	NA	NA	143	Average	18	60	25	18	Telecom Italia (Risp) (2)	Average	IV 98	16.9	III 98	-21.2	800-544-8888
1.0	15.4	15.5	12.6	2431	Very low	8	2	36	55	Microsoft (5)	Average	IV 98	22.7	III 98	-12.2	800-334-0483
1	12.5	NA	NA	113	Low	7	5	41	37	Etan ADR (4)	High	IV 98	25.9	III 98	-19.3	800-637-2548
1	NA	NA	NA		High	97	4	32	2	First American Fixed-Inc. (37)		NA	NA	NA	NA	800-637-2548
1.9	18.0	18.0	14.7	4121	High	16	NA	31	21	Biogen (4)	Average	IV 98	16.8	III 98	-13.5	800-451-3623
1.5	16.3	14.3	12.7	3422	Average	12	4	33	37	General Electric (3)	Average	IV 98	20.0	III 98	-12.9	800-423-4026

DATA: MORNINGSTAR, INC., CHICAGO, IL.

MUTUAL FUND SCOREBOARD

FUND	OVERALL RATING (COMPARES RISK-ADJUSTED PERFORMANCE OF EACH FUND AGAINST ALL FUNDS)	CATEGORY	RATING (COMPARES RISK-ADJUSTED PERFORMANCE OF FUND WITHIN CATEGORY)	SIZE ASSETS \$MIL.	% CHG. 1997-98	FEES SALES CHARGE (%)	EXPENSE RATIO (%)	1998 RE- TURN PRE- TAX
FIRST INVESTORS GLOBAL A	C-	World	C	292.8	6	6.25	1.82†	16.8
FIRST INVESTORS GROWTH & INCOME A	B	Large-cap Blend	C	295.8	40	6.25	1.39†	23.4
FIRST OMAHA EQUITY	B+	Large-cap Value	B+	271.2	-6	No load	1.04†	7.8
FIRSTAR GROWTH & INCOME RET. (z)		Large-cap Blend		215.3	53	4.00	1.12†	22.4
FLAG INVESTORS COMMUNICATIONS A (aa)	A	Communications	B+	1250.8	101	4.50	1.11†	85.3
FLAG INVESTORS EQUITY PARTNERS A		Large-cap Value		246.2	64	4.50	1.35†	25.3
FLAG INVESTORS VALUE BUILDER A	A	Domestic Hybrid	B+	610.3	49	4.50	1.14†	18.5
FORTIS CAPITAL A	C	Large-cap Growth	C-	421.8	27	4.75	1.13†	29.6
FORTIS GROWTH A	D	Mid-cap Growth	C-	654.3	-7	4.75	1.05†	19.0
FOUNDERS BALANCED	A	Domestic Hybrid	B+	1254.1	34	No load	0.99†	14.0
FOUNDERS BLUE CHIP	B+	Large-cap Blend	B	542.4	0	No load	1.09†	17.8
FOUNDERS DISCOVERY	D	Small-cap Growth	C-	239.4	-3	No load	1.52†	14.2
FOUNDERS GROWTH	C	Large-cap Growth	C	2377.3	35	No load	1.10†	25.0
FOUNDERS SPECIAL	D	Mid-cap Growth	C-	252.3	-21	No load	1.30†	-1.7
FOUNDERS WORLDWIDE GROWTH	C-	World	C	275.3	-11	No load	1.45†	9.6
FPA CAPITAL	C	Mid-cap Value	C-	673.7	-8	6.50‡	0.83	-0.4
FPA PARAMOUNT	D	Mid-cap Value	F	354.7	-49	6.50	0.92	-24.4
FRANKLIN BALANCE SHEET INVESTMENT	B	Small-cap Value	B+	1516.6	18	1.50‡	1.08†	-0.6
FRANKLIN CALIFORNIA GROWTH A (bb)	B+	Mid-cap Growth	A	754.8	32	5.75	0.99†	10.7
FRANKLIN DYNATECH A (cc)	C	Technology	A	287.5	59	5.75	1.04†	27.3
FRANKLIN EQUITY A (dd)	C	Large-cap Blend	D	627.7	20	5.75	0.90†	13.2
FRANKLIN EQUITY INCOME A (ee)	B	Large-cap Value	C	446.7	17	5.75	0.97†	6.7
FRANKLIN GLOBAL UTILITIES A (ff)	C-	Utilities	F	206.0	-1	5.75	1.03†	6.5
FRANKLIN GROWTH A (gg)	B+	Large-cap Blend	B+	1898.6	26	5.75	0.89†	18.5
FRANKLIN INCOME A (hh)	C	Domestic Hybrid	D	7783.9	-3	4.25	0.72†	1.0
FRANKLIN MICROCAP VALUE A (ii)		Small-cap Value		224.1	16	4.50‡	1.22†	-6.8
FRANKLIN REAL ESTATE SEC. A (jj)	C	Real Estate	B	295.3	-3	5.75	1.00†	-15.4
FRANKLIN RISING DIVIDENDS A (kk)	C	Mid-cap Blend	B	470.4	13	5.75	1.39†	6.0
FRANKLIN SMALL CAP GROWTH A (ll)	C-	Small-cap Growth	B	3723.7	35	5.75	0.89†	-0.0
FRANKLIN UTILITIES A (mm)	C-	Utilities	F	2103.9	-4	4.25	0.75†	7.6
FREMONT GLOBAL	C	International Hybrid	C	646.9	-2	No load	0.85	10.0
FUNDAMENTAL INVESTORS	B+	Large-cap Value	B	12712.9	21	5.75	0.63†	16.7
GABELLI ASSET	B+	Mid-cap Blend	B+	1593.6	19	No load	1.38†	15.9
GABELLI GROWTH	B+	Large-cap Growth	B+	1864.0	96	No load	1.43†	29.8
GABELLI SMALL CAP GROWTH	C	Small-cap Blend	A	321.3	10	No load	1.62†	-0.0
GABELLI VALUE	C	Mid-cap Blend	B	797.6	34	5.50	1.42†	23.2
GALAXY ASSET ALLOC. RET. A	A	Domestic Hybrid	B+	361.4	86	3.75	1.37	17.7
GALAXY EQUITY GROWTH RET. A	B+	Large-cap Growth	B+	361.7	50	3.75	1.37	25.7
GALAXY EQUITY INCOME RET. A	B+	Large-cap Blend	B	220.3	20	3.75	1.39	15.6
GALAXY EQUITY VALUE RET. A	B	Large-cap Value	C	270.7	40	3.75	1.38	23.8
GALAXY GROWTH & INCOME RET. A	B+	Large-cap Value	B	238.3	51	3.75	1.27	15.7
GALAXY II LARGE CO. INDEX RET.	A	Large-cap Blend	B+	747.0	37	No load	0.40	28.1
GALAXY II SMALL CO. INDEX RET.	C-	Mid-cap Blend	C-	310.8	-18	No load	0.40	-1.8
GAM INTERNATIONAL A	C-	Foreign	B	2681.2	50	5.00	1.68†	6.8
GATEWAY (nn)	A	Domestic Hybrid	B+	464.2	82	No load	1.07	12.3
GOLDMAN SACHS CAPITAL GROWTH A	B	Large-cap Blend	C	1893.1	56	5.50	1.40†	33.9
GOLDMAN SACHS CORE U.S. EQUITY A	B	Large-cap Blend	C	552.5	44	5.50	1.27†	21.3
GOLDMAN SACHS GROWTH & INC. A	C	Large-cap Value	C-	1175.1	1	5.50	1.25†	-5.4
GOLDMAN SACHS INTL. EQUITY A	C-	Foreign	C	912.9	33	5.50	1.67†	18.0
GOLDMAN SACHS SM. CAP VAL. A	D	Small-cap Value	F	280.6	-24	5.50	1.54†	-16.9
GRADISON ESTABLISHED VALUE	B	Mid-cap Value	B	518.2	-1	No load	1.10†	6.1
GRIFFIN GROWTH & INCOME A	B	Large-cap Value	C-	310.3	27	4.50	0.84†	7.8
GROWTH FUND OF AMERICA	C	Large-cap Blend	D	16246.9	33	5.75	0.70†	31.8
GUARDIAN PARK AVENUE A	B+	Large-cap Blend	B	2995.7	29	4.50	0.79†	21.3
HANCOCK EMERGING GROWTH B	D	Small-cap Growth	B	435.0	-3	5.00**	2.02†	11.6
HANCOCK FINANCIAL INDUSTRIES B		Financial		2782.2	66	5.00**	1.90†	4.2
HANCOCK GLOBAL TECHNOLOGY A	D	Technology	D	246.3	45	5.00	1.51†	49.2
HANCOCK GROWTH B	C-	Large-cap Growth	D	285.0	28	5.00**	2.13†	25.5
HANCOCK GROWTH & INCOME B	C	Large-cap Blend	D	548.0	61	5.00**	1.87†	15.0
HANCOCK INDEP. EQUITY B		Large-cap Blend		347.0	157	5.00**	2.12†	27.9
HANCOCK REGIONAL BANK B	B+	Financial	B+	4907.0	-10	5.00**	2.00†	0.7
HANCOCK SOVEREIGN INVESTORS A	B	Large-cap Blend	C	1884.5	8	5.00	1.06†	15.6
HANCOCK SPECIAL EQUITIES B	D	Mid-cap Growth	F	519.6	-43	5.00**	2.19†	-6.0
HARBOR CAPITAL APPRECIATION	C	Large-cap Growth	C	4696.7	62	No load	0.70	36.8
HARBOR INTERNATIONAL	C-	Foreign	B+	5373.9	2	No load†	0.97	10.4
HARBOR INTERNATIONAL GROWTH	C-	Foreign	C	1323.2	40	No load	1.02	23.5
HARTFORD ADVISERS A		Domestic Hybrid		315.5	222	5.50	1.40†	21.1
HARTFORD CAPITAL APPRECIATION A		Small-cap Growth		365.3	57	5.50	1.45†	3.3
HARTFORD STOCK A		Large-cap Blend		267.0	311	5.50	1.45†	31.3
HEARTLAND VALUE	C-	Small-cap Value	C-	1666.0	-22	No load	1.12†	-11.5

*Includes redemption fee. **Includes deferred sales charge. †12(b)-1 plan in effect. ‡Not currently accepting new accounts. §Less than 0.5% of assets. NA=Not available. (z) Formerly Portico Growth & Income Ret. (aa) Formerly Flag Investors Telephone Income A. (bb) Formerly Franklin CA Growth I. (cc) Formerly Franklin DynaTech I. (dd) Equity I. (ee) Formerly Franklin Equity Income I. (ff) Formerly Franklin Global Utilities I. (gg) Formerly Franklin Growth I. (hh) Formerly Franklin Income I. (ii) Formerly Franklin International I. (jj) Formerly Franklin Real Estate Securities I. (kk) Formerly Franklin Rising Dividends I. (ll) Formerly Franklin Small Cap Growth I. (mm) Formerly Franklin Utilities I.

Equity Funds

AL TOTAL RETURNS (%) HISTORY										PORTFOLIO DATA				RISK		TELEPHONE			
5 YEARS		10 YEARS		RESULTS VS. ALL FUNDS	TURNOVER	CASH %	FOREIGN %	P-E RATIO	UNTAXED GAINS (%)	LARGEST HOLDING COMPANY (% ASSETS)	LEVEL	BEST		WORST					
RETAX	AFTERTAX	PRETAX	AFTERTAX									QTR	%RET	QTR	%RET				
0.4	8.4	10.5	9.0	3443	Average	6	63	30	24	Bayer (2)	Average	IV 98	18.3	III 98	-15.7			800-423-4026	
9.5	18.8	NA	NA	21	Low	12	4	32	37	General Electric (3)	Low	IV 98	19.4	III 98	-10.8			800-423-4026	
5.2	12.7	NA	NA	23	Low	16	NA	28	23	Rite Aid (4)	Very low	II 97	12.3	III 98	-10.4			800-662-4203	
NA	NA	NA	NA	1	Low	12	NA	33	35	Tyco Intl. (4)			NA		NA			800-228-1024	
9.2	26.6	23.3	20.9	12221	Low	5	6	42	76	America Online (19)	Average	IV 98	51.2	I 94	-5.9			800-767-3524	
NA	NA	NA	NA	1	Low	4	6	26	35	America Online (6)			NA		NA			800-767-3524	
9.1	17.8	NA	NA	21	Very low	7	8	29	30	Conseco (4)	Very low	IV 98	17.9	III 98	-9.7			800-767-3524	
9.9	15.4	17.1	14.2	1321	Average	13	8	41	26	Microsoft (3)	Average	IV 98	22.0	III 98	-11.1			800-800-2638	
2.8	9.9	16.4	13.9	1233	Average	11	1	42	32	Cisco Systems (4)	High	IV 98	22.1	III 98	-16.4			800-800-2638	
5.0	12.3	14.3	11.6	3223	Very high	3	24	31	10	Rhone-Poulenc Cl. A (2)	Very low	II 97	10.1	III 98	-3.0			800-525-2440	
7.8	13.2	16.3	11.8	1312	Very high	10	22	30	16	Bristol-Myers Squibb (3)	Low	II 97	12.6	III 98	-7.2			800-525-2440	
3.4	10.5	NA	NA	123	Average	17	3	36	26	Applied Micro Circuits (2)	High	IV 98	36.6	III 98	-22.7			800-525-2440	
1.0	18.0	20.3	17.3	1112	Very high	7	4	36	23	MCI WorldCom (5)	Average	IV 98	21.1	III 98	-13.6			800-525-2440	
9.5	6.6	15.0	11.4	1134	High	4	7	37	19	Total Renal Care Holdings (4)	High	IV 98	23.4	III 98	-29.9			800-525-2440	
0.3	8.7	NA	NA	134	Average	14	75	28	23	MCI WorldCom (4)	Average	IV 98	14.4	III 98	-16.8			800-525-2440	
1.8	16.9	20.1	17.0	1113	Low	1	NA	19	27	Conseco (8)	Average	IV 98	17.0	III 98	-23.6			800-982-4372	
1.4	-0.2	9.3	5.3	1314	Average	14	16	21	-46	Placer Dome (10)	High	I 98	12.9	III 98	-17.8			800-982-4372	
1.2	12.3	NA	NA	123	Low	20	7	19	8	Entergy (3)	Low	II 97	11.5	III 98	-13.6			800-342-5236	
1.5	21.1	NA	NA	12	Average	8	2	32	13	Cisco Systems (2)	Average	IV 98	22.0	III 98	-15.3			800-342-5236	
1.1	19.1	18.5	17.0	1421	Very low	46	1	45	46	Intel (9)	Average	IV 98	16.6	IV 97	-5.7			800-342-5236	
1.4	15.8	13.5	11.0	3422	Low	13	16	33	31	Cisco Systems (3)	Average	IV 98	24.1	III 98	-19.3			800-342-5236	
1.9	11.7	14.0	11.7	3232	Low	9	11	23	16	Atlantic Richfield (3)	Very low	II 97	9.1	III 98	-5.8			800-342-5236	
1.5	10.0	NA	NA	12	Average	3	29	24	21	AirTouch Communications (4)	Average	IV 98	12.6	III 98	-12.9			800-342-5236	
1.5	17.9	15.2	14.4	2412	Very low	31	1	34	45	Schering-Plough (5)	Low	IV 98	12.3	I 94	-6.5			800-342-5236	
1.2	5.3	11.6	8.3	3123	Very low	6	6	19	4	Philip Morris (2)	Very low	II 95	7.3	I 94	-5.2			800-342-5236	
1.4	NA	NA	NA	3	Low	5	2	21	0	United Retail Group (3)			NA		NA			800-342-5236	
1.7	10.4	NA	NA	23	Very low	8	4	23	-11	Archstone Communities Tr. (4)	Low	IV 96	14.5	III 98	-11.3			800-342-5236	
1.4	14.6	14.0	12.7	1432	Low	2	1	24	23	Family Dollar Stores (5)	Average	IV 98	19.1	III 98	-14.7			800-342-5236	
1.9	16.1	NA	NA	13	Low	12	4	34	1	Wind River Systems (2)	High	IV 98	23.3	III 98	-23.6			800-342-5236	
1.6	7.2	11.7	9.3	3243	Very low	4	0	20	22	FPL Group (4)	Average	IV 97	15.0	I 94	-9.9			800-342-5236	
1.5	7.0	10.4	8.3	4343	Average	3	43	27	9	Xilinx (1)	Low	IV 98	12.1	III 98	-8.9			800-548-4539	
1.3	16.8	17.3	14.3	2221	Average	6	12	31	25	Time Warner (3)	Low	IV 98	15.5	III 98	-10.4			800-421-4120	
1.8	15.4	16.2	14.2	3231	Low	5	7	30	47	Time Warner (4)	Low	IV 98	18.2	III 98	-14.2			800-422-3554	
2	19.3	19.8	17.3	1321	Average	1	NA	38	32	Home Depot (4)	Average	IV 98	30.2	III 98	-14.5			800-422-3554	
2	10.7	NA	NA	33	Very low	2	5	23	24	Liberty (3)	Average	II 97	16.3	III 98	-20.3			800-422-3554	
1.5	15.8	NA	NA	121	Low	0	3	33	37	Media General Cl. A (10)	Average	II 97	21.3	III 98	-13.2			800-422-3554	
1.6	13.9	NA	NA	32	Average	10	1	39	16	Cisco Systems (2)	Very low	IV 98	11.7	III 98	-3.8			800-628-0414	
1.6	19.6	NA	NA	411	Average	2	4	38	30	MCI WorldCom (2)	Average	IV 98	24.0	III 98	-11.7			800-628-0414	
1.9	15.4	NA	NA	422	Low	13	NA	32	25	Automatic Data Processing (4)	Low	II 97	13.3	III 98	-8.4			800-628-0414	
1.4	16.9	15.9	13.1	3321	High	2	NA	28	22	Carnival Cl. A (3)	Average	IV 98	27.2	III 98	-15.3			800-628-0414	
1.4	16.4	NA	NA	11	Average	9	3	29	15	Office Depot (2)	Low	IV 98	20.7	III 98	-13.5			800-628-0414	
1.6	22.2	NA	NA	311	Very low	3	2	33	43	Microsoft (3)	Low	IV 98	21.2	III 98	-10.0			800-628-0414	
1.3	9.8	NA	NA	223	Very low	3	0	26	-9	Russell 2000 Index (Fut.) (1)	Average	IV 98	17.4	III 98	-20.9			800-628-0414	
1.9	9.7	15.6	13.1	4142	Average	4	96	22	18	Barclays (5)	Average	I 95	17.5	III 98	-10.8			800-426-4685	
1.3	9.1	11.1	9.1	2433	Average	4	1	34	19	Microsoft (7)	Very low	IV 98	7.2	I 94	-2.6			800-354-6339	
1.4	18.4	NA	NA	131	Average	5	NA	35	38	Warner-Lambert (3)	Average	IV 98	24.3	III 98	-11.4			800-526-7384	
1.3	19.9	NA	NA	111	Average	2	3	32	31	Microsoft (4)	Average	IV 98	21.4	III 98	-14.7			800-526-7384	
1.4	14.6	NA	NA	113	Average	14	5	19	6	Aetna (4)	Low	II 97	15.2	III 98	-17.0			800-526-7384	
2	8.6	NA	NA	33	Low	1	100	28	17	Securitas Cl. B (4)	Average	I 98	16.9	III 98	-14.4			800-526-7384	
1	2.5	NA	NA	44	Average	3	5	19	-17	Quest Diagnostics (4)	High	II 96	15.6	III 98	-32.2			800-526-7384	
1.3	12.3	13.1	11.1	4223	Low	26	NA	21	33	Household International (4)	Low	IV 98	14.1	III 98	-13.2			800-869-5999	
1.4	16.5	NA	NA	12	Average	2	5	23	9	Waste Management (3)	Average	IV 98	15.5	III 98	-14.3			800-676-4450	
1.3	17.6	17.9	15.6	2221	Low	10	7	38	44	Time Warner (5)	Average	IV 98	27.2	III 98	-9.5			800-421-4120	
1.3	19.7	19.3	16.5	3121	Average	8	1	32	32	Microsoft (4)	Average	IV 98	22.2	III 98	-12.8			800-221-3253	
1.3	14.8	19.2	18.0	3113	High	2	2	40	34	Metromedia Fiber Net Cl. A (1)	High	IV 98	32.7	III 98	-21.8			800-225-5291	
1.4	NA	NA	NA		Very low	9	13	22	12	Fannie Mae (3)			NA		NA			800-225-5291	
1.4	21.7	17.6	15.3	4111	High	8	1	49	57	America Online (7)	Very high	IV 98	43.0	IV 97	-14.2			800-225-5291	
1.4	13.0	NA	NA	32	High	4	NA	42	3	IBM (5)	High	IV 98	22.2	III 98	-9.7			800-225-5291	
1.4	16.9	NA	NA	31	High	11	5	25	34	S&P Index (Fut.) (7)	Average	II 97	18.2	III 98	-13.1			800-225-5291	
1.4	NA	NA	NA	1	Average	4	2	31	20	Microsoft (3)			NA		NA			800-225-5291	
1.4	23.0	23.0	21.2	3111	Very low	9	1	20	50	First Union (4)	Average	IV 98	15.4	III 98	-16.5			800-225-5291	
1.4	15.4	15.6	13.4	1422	Average	10	NA	29	35	Emerson Electric (3)	Low	IV 98	15.6	III 98	-7.9			800-225-5291	
1.4	8.6	NA	NA	13	Low	6	5	41	48	S&P 500 Index (Fut.) (5)	Very high	IV 98	26.4	III 98	-27.0			800-225-5291	
1.4	23.7	21.7	19.4	2111	Average	6	4	41	31	MCI WorldCom (5)	High	IV 98	30.0	III 98	-13.2			800-422-1050	
1.4	12.1	15.1	13.9	2223	Very low	6	100	24	39	Swiss Reinsurance (Reg.) (3)	Average	IV 98	18.3	III 98	-16.6			800-422-1050	
1.4	13.5	NA	NA	32	Average	8	100	31	23	UniCredit Italiano (7)	High	IV 98	22.4	III 98	-15.2			800-422-1050	
1.4	NA	NA	NA		Low	3	5	36	13	Microsoft (2)			NA		NA			888-843-7824	
1.4	NA	NA	NA		High	2	11	33	-2	Genzyme-General Division (2)			NA		NA			888-843-7824	
1.4	NA	NA	NA		Low	4	5	35	16	Microsoft (3)			NA		NA			888-843-7824	
1.4	10.0	14.6	12.5	2114	Average	11	9	18	10	ICN Pharmaceuticals (4)	Average	III 97	14.8	III 98	-18.6			800-432-7856	

DATA: MORNINGSTAR, INC., CHICAGO, IL.

MUTUAL FUND SCOREBOARD

FUND	OVERALL RATING (COMPARES RISK-ADJUSTED PERFORMANCE OF EACH FUND AGAINST ALL FUNDS)	CATEGORY	RATING (COMPARES RISK-ADJUSTED PERFORMANCE OF FUND WITHIN CATEGORY)	SIZE ASSETS \$MIL.	% CHG. 1997-98	FEES SALES CHARGE (%)	EXPENSE RATIO (%)	1998 RET. PRE- TAX
HIBERNIA CAPITAL APPRECIATION A (oo)	B+	Large-cap Blend	C	343.5	17	4.50	1.21†	26.3
HIGHMARK BALANCED FID.	B+	Domestic Hybrid	C	458.2	12	No load	0.79	10.1
HIGHMARK GROWTH FIDUCIARY	B	Large-cap Growth	B	572.2	80	No load	0.92	31.8
HIGHMARK INCOME-EQUITY FID.	B	Large-cap Value	B	658.1	84	No load	0.99	15.1
HOMESTEAD VALUE	B	Mid-cap Value	B+	445.6	21	No load	0.79	8.3
HOTCHKIS & WILEY INTERNATIONAL	C-	Foreign	B+	1409.5	35	No load	0.89	6.4
IAI REGIONAL	C-	Mid-cap Blend	C-	331.2	-34	No load	1.22	-1.4
ICAP DISCRETIONARY EQUITY		Large-cap Value		205.4	31	No load	0.80	10.2
ICAP EQUITY		Large-cap Value		717.3	93	No load	0.80	11.4
IDEX GLOBAL A	C	World	B+	350.2	54	5.50	1.91†	24.9
IDEX GROWTH A	C	Large-cap Growth	C-	1010.2	62	5.50	1.61†	64.0
IDS BLUE CHIP ADVANTAGE A	B	Large-cap Blend	C	1757.4	51	5.00	0.78	22.9
IDS DISCOVERY A	D	Mid-cap Growth	D	898.8	-2	5.00	1.13	2.1
IDS DIVERSIFIED EQUITY-INCOME A	B	Large-cap Value	C-	2059.1	12	5.00	0.88†	11.8
IDS EQUITY SELECT A	C	Large-cap Blend	D	1159.3	17	5.00	0.83	19.5
IDS EQUITY VALUE B	C	Large-cap Value	C-	1701.3	-1	5.00**	1.61†	8.5
IDS GLOBAL GROWTH A	D	World	D	1081.2	22	5.00	1.37	26.0
IDS GROWTH A	C	Large-cap Growth	C-	3936.6	28	5.00	0.87	22.5
IDS INTERNATIONAL A	D	Foreign	D	854.3	4	5.00	1.18	15.4
IDS MANAGED ALLOCATION A	C	Large-cap Blend	F	2365.5	-7	5.00	0.84	8.4
IDS MUTUAL A	B	Domestic Hybrid	C	3258.7	1	5.00	0.83	9.3
IDS NEW DIMENSIONS A	B	Large-cap Growth	C	11919.6	34	5.00	0.82	28.3
IDS PROGRESSIVE A	C	Mid-cap Blend	C	509.6	2	5.00	1.02	-1.5
IDS RESEARCH OPPORTUNITIES A		Large-cap Blend		382.8	47	5.00	NA	23.3
IDS SMALL COMPANY INDEX A		Small-cap Blend		599.9	60	5.00	1.00	-2.3
IDS STOCK A	C	Large-cap Blend	D	3257.6	13	5.00	0.78	19.3
IDS STRATEGY AGGRESSIVE B	C-	Mid-cap Growth	C	822.0	1	5.00**	1.77†	18.4
IDS UTILITIES INCOME A	B	Utilities	B	1180.1	37	5.00	0.86	22.7
INCOME FUND OF AMERICA	A	Domestic Hybrid	B+	22909.0	13	5.75	0.59†	9.5
INDEPENDENCE ONE EQUITY PLUS		Large-cap Blend		260.0	39	No load	0.39	31.6
INVESCO BALANCED	A	Domestic Hybrid	A	260.3	55	No load	1.22†	17.3
INVESCO DYNAMICS	C	Mid-cap Growth	B+	1549.6	38	No load	1.08†	23.3
INVESCO EUROPEAN	C	Europe	D	770.7	133	No load	1.25†	32.9
INVESCO FINANCIAL SERVICES (pp)	B	Financial	C	1522.9	17	No load	0.99†	13.5
INVESCO GROWTH	C	Large-cap Growth	C	1220.1	62	No load	1.04†	41.7
INVESCO HEALTH SCIENCES (qq)	B	Health	B	1567.9	66	No load	1.08†	43.4
INVESCO INDUSTRIAL INCOME	B+	Large-cap Blend	B	4927.9	1	No load	0.9†	14.1
INVESCO LEISURE (rr)	C	Unaligned	B	276.9	24	No load	1.41†	29.8
INVESCO SMALL COMPANY GROWTH	D	Small-cap Growth	B	316.8	1	No load	1.48†	14.9
INVESCO TECHNOLOGY (ss)	C	Technology	B+	1147.7	12	No load	1.05†	30.1
INVESCO TOTAL RETURN	A	Domestic Hybrid	B+	3040.8	41	No load	0.79	13.6
INVESCO VALUE EQUITY	B	Large-cap Value	C	432.1	14	No load	1.15†	15.1
INVESCO WORLDWIDE COMMUNICATIONS		Communications		323.5	287	No load	1.32†	41.0
INVESTMENT CO. OF AMERICA	B+	Large-cap Blend	B	48497.6	22	5.75	0.56†	22.9
ISG LARGE CAP EQUITY A (tt)	A	Large-cap Growth	A	806.1	24	3.50	0.99†	37.9
IVY GROWTH A	C-	Mid-cap Blend	D	304.8	-5	5.75	1.38†	14.1
IVY INTERNATIONAL A	C-	Foreign	C	1618.0	-5	5.75†	1.59†	7.3
JANUS	B+	Large-cap Growth	B+	25490.7	32	No load	0.86	38.9
JANUS BALANCED	A	Domestic Hybrid	A	1136.6	192	No load	1.10	31.2
JANUS ENTERPRISE	C-	Mid-cap Growth	B	728.0	27	No load	1.04	33.8
JANUS EQUITY-INCOME		Large-cap Growth		349.2	409	No load	1.45	40.1
JANUS GROWTH & INCOME	B+	Large-cap Growth	B	3504.1	75	No load	0.96	34.9
JANUS MERCURY	B	Large-cap Growth	B	3111.6	63	No load	0.96	58.4
JANUS OLYMPUS		Large-cap Growth		1288.1	105	No load	1.03	57.0
JANUS OVERSEAS		Foreign		4329.0	34	No load†	1.01	16.0
JANUS SPECIAL SITUATIONS		Mid-cap Growth		893.7	130	No load	1.18	25.3
JANUS TWENTY	B+	Large-cap Growth	B+	15797.2	163	No load	0.91	73.4
JANUS VENTURE	C-	Small-cap Growth	B+	1246.2	1	No load†	0.92	23.2
JANUS WORLDWIDE	B	World	A	16322.7	54	No load	0.95	25.9
JAPAN	F	Japan		348.3	29	No load	1.21	24.3
KALMAR "GROWTH/VAL." SMALL CAP		Small-cap Growth		222.3	-2	No load	1.25	-7.7
KAUFMANN	C-	Small-cap Growth	B+	4456.1	-26	0.20*	1.88†	0.7
KEMPER BLUE CHIP A	B	Large-cap Blend	C-	420.0	28	5.75	1.19	14.4
KEMPER GLOBAL DISCOVERY S (uu)	C-	World	C	301.7	-11	No load	1.63	16.4
KEMPER GROWTH A	C-	Large-cap Growth	F	2097.6	15	5.75	1.04	14.2
KEMPER INTERNATIONAL A	C-	Foreign	C	433.5	5	5.75	1.57†	7.9
KEMPER SMALL CAP VALUE A	C-	Small-cap Value	C-	500.1	-21	5.75	1.32	-12.8
KEMPER SMALL CAP EQUITY A	D	Small-cap Growth	C	659.8	-6	5.75	0.90	-3.1
KEMPER TECHNOLOGY A	C-	Technology	C-	1359.5	34	5.75	0.89	43.6
KEMPER TOTAL RETURN A	C	Domestic Hybrid	D	2606.2	22	5.75	1.01	15.9

*Includes redemption fee. **Includes deferred sales charge. †12(b)-1 plan in effect. ‡Not currently accepting new accounts. \$Less than 0.5% of assets. NA=Not available. N=Not available. (oo) Formerly Tower Capital Appreciation A. (pp) Formerly Invesco Strategic Financial Services. (qq) Formerly Invesco Strategic Health Sciences. (rr) Formerly Invesco Strategic Real Estate. (ss) Formerly Invesco Strategic Technology. (tt) Formerly DG Equity. (uu) Formerly Scudder Global Discovery.

Equity Funds

ANNUAL TOTAL RETURNS (%) HISTORY										PORTFOLIO DATA				RISK		TELEPHONE			
5 YEARS		10 YEARS		RESULTS VS ALL FUNDS	TURNOVER	CASH %	FOREIGN %	P-E RATIO	UNTAXED GAINS (%)	LARGEST HOLDING COMPANY (% ASSETS)	LEVEL	BEST		WORST					
PRETAX	AFTERTAX	PRETAX	AFTERTAX									QTR	%RET	QTR	%RET				
2.4	19.7	18.2	15.7	2311	Average	1	2	32	43	General Electric (4)	Average	IV 98	23.2	III 98	-12.1			800-999-0124	
3.9	11.9	NA	NA	333	Low	2	6	27	25	IBM (1)	Very low	IV 98	11.3	III 98	-7.2			800-433-6884	
1.6	19.0	NA	NA	21	High	2	1	40	23	IMS Health (4)	Average	IV 98	26.0	III 98	-14.4			800-433-6884	
8.1	15.0	15.4	12.4	3322	Average	1	1	28	11	Baxter International (4)	Low	IV 98	16.7	III 98	-10.2			800-433-6884	
7.3	16.0	NA	NA	312	Very low	6	3	24	29	Maytag (3)	Low	II 97	13.5	III 98	-11.6			800-258-3030	
9.1	8.0	NA	NA	133	Low	2	100	17	5	Creative Technology (3)	Average	IV 98	15.5	III 98	-18.4			800-236-4479	
2.6	9.1	13.7	10.2	1314	Average	10	NA	30	18	Abbott Laboratories (3)	Average	II 97	17.0	III 98	-17.9			800-945-3863	
NA	NA	NA	NA	2	High	17	19	27	13	NationsBank (4)		NA		NA				888-221-4227	
NA	NA	NA	NA	1	High	2	18	27	12	BankAmerica (New) (1)		NA		NA				888-221-4227	
8.2	16.4	NA	NA	22	Average	18	71	43	26	Cisco Systems (3)	Average	IV 98	18.5	III 98	-16.0			888-233-4339	
4.8	22.0	21.9	19.0	1311	Average	12	12	51	52	Dell Computer (10)	High	IV 98	27.9	III 98	-6.4			888-233-4339	
1.1	18.4	NA	NA	311	High	1	2	35	23	Microsoft (3)	Average	IV 98	20.2	III 98	-10.6			800-328-8300	
3.6	7.1	14.7	12.1	1239	High	2	5	40	9	FINOVA Group (3)	High	IV 98	24.7	III 98	-21.8			800-328-8300	
4.0	11.1	NA	NA	132	Average	7	6	25	10	IBM (3)	Low	IV 98	15.4	III 98	-10.7			800-328-8300	
7.9	14.5	16.9	13.7	1231	Average	10	6	39	32	Tyco Intl. (5)	Average	IV 98	27.6	III 98	-15.8			800-328-8300	
1.6	11.5	14.3	11.3	3232	High	2	6	25	11	BankAmerica (New) (3)	Low	IV 98	16.2	III 98	-12.4			800-328-8300	
3.9	7.6	NA	NA	233	High	9	58	36	20	Mannesmann (4)	High	IV 98	21.2	III 98	-16.9			800-328-8300	
1.8	20.2	20.6	16.8	1211	Low	4	2	40	44	Microsoft (5)	High	IV 98	27.1	III 98	-17.5			800-328-8300	
3.8	5.5	7.9	6.4	4344	Average	17	95	32	22	Mannesmann (5)	High	IV 98	19.5	III 98	-19.9			800-328-8300	
1.6	6.1	14.6	11.2	1133	High	16	20	33	3	General Electric (2)	Average	IV 98	12.0	III 98	-11.1			800-328-8300	
2.3	9.1	12.4	9.0	3333	Average	6	6	25	6	Washington Mutual (2)	Very low	IV 98	10.2	III 98	-6.6			800-328-8300	
2	19.6	20.7	18.6	1211	Low	8	3	39	45	Cisco Systems (4)	Average	IV 98	24.3	III 98	-11.5			800-328-8300	
1.8	10.1	10.9	8.3	4333	High	4	4	25	4	Allmerica Financial (4)	Average	IV 98	16.6	III 98	-19.0			800-328-8300	
NA	NA	NA	NA			1	1	35	NA	MCI WorldCom (4)		NA		NA				800-328-8300	
NA	NA	NA	NA		Low	0	1	26	0	Vitesse Semiconductor (1)		NA		NA				800-328-8300	
9	13.9	16.4	12.8	1232	Average	10	6	37	30	General Electric (3)	Average	IV 98	19.3	III 98	-11.5			800-328-8300	
1	13.1	15.7	13.8	1133	High	12	4	46	52	Cisco Systems (5)	High	IV 98	22.3	III 98	-19.1			800-328-8300	
8	13.1	15.5	12.7	2311	Average	3	4	23	27	MCI WorldCom (5)	Low	IV 97	13.7	I 94	-6.4			800-328-8300	
2	11.3	13.9	11.0	3232	Low	15	15	22	13	Atlantic Richfield (2)	Very low	IV 98	8.2	III 98	-4.9			800-421-4120	
NA	NA	NA	NA	1		3	5	33	44	General Electric (7)		NA		NA				800-334-2292	
3	16.4	NA	NA	11	High	5	4	32	14	Merck (2)	Very low	IV 98	13.7	III 98	-6.6			800-525-8085	
2	14.7	20.0	16.7	2112	Very high	7	7	39	19	J.D. Edwards (2)	High	IV 98	26.7	III 98	-17.8			800-525-8085	
1	15.1	13.6	11.8	4131	Average	4	100	39	18	TNT Post Group (3)	Average	I 98	26.3	III 98	-17.7			800-525-8085	
0	20.2	25.1	22.1	1131	High	11	7	22	21	Hertz Cl. A (3)	Average	IV 98	19.9	III 98	-18.2			800-525-8085	
8	15.6	19.1	15.3	1131	High	1	2	36	26	Philip Morris (5)	Average	IV 98	26.9	III 98	-5.9			800-525-8085	
9	21.6	25.1	22.6	1111	High	10	8	46	27	Merck (7)	Average	III 95	19.5	II 94	-7.5			800-525-8085	
6	12.6	16.8	13.8	1232	Average	5	4	30	29	Bank of New York (3)	Low	II 97	13.3	III 98	-7.4			800-525-8085	
5	12.3	20.0	17.1	1132	Low	5	23	33	36	Liberty Media Cl. A (6)	Average	IV 98	24.8	III 98	-12.6			800-525-8085	
7	9.5	NA	NA	23	High	13	7	37	9	Sunrise Assisted Living (2)	High	IV 98	26.3	III 98	-16.9			800-525-8085	
5	17.6	23.8	20.5	1112	Very high	5	2	44	16	IBM (5)	High	IV 98	25.1	IV 97	-12.9			800-525-8085	
2	14.8	14.5	12.7	3322	Very low	2	11	23	23	British Telecom ADR (1)	Very low	II 97	11.9	III 98	-5.3			800-525-8085	
8	16.8	15.6	13.4	2412	Average	6	6	26	32	State Street (5)	Low	IV 98	16.7	III 98	-11.7			800-525-8085	
A	NA	NA	NA	1	Average	4	21	40	22	MCI WorldCom (5)		NA		NA				800-525-8085	
0	17.6	17.2	14.9	1321	Low	16	8	32	42	Philip Morris (4)	Low	IV 98	17.3	III 98	-7.4			800-421-4120	
8	23.6	NA	NA	31	Very low	3	NA	39	63	Schering-Plough (4)	Low	IV 98	24.8	III 98	-6.0			800-748-8500	
0	11.0	13.3	10.6	2333	Low	3	27	30	35	Cisco Systems (3)	High	IV 98	21.6	III 98	-17.0			800-456-5111	
7	10.0	12.4	11.5	3333	Very low	7	98	24	21	Imperial Tobacco Group (3)	Average	IV 98	16.4	III 98	-15.7			800-456-5111	
2	18.5	20.4	17.8	1121	High	6	5	47	25	Microsoft (7)	Low	IV 98	28.4	III 98	-11.0			800-525-8983	
6	16.0	NA	NA	31	High	8	6	46	15	Dell Computer (3)	Very low	IV 98	18.8	III 98	-4.5			800-525-8983	
1	16.2	NA	NA	13	High	2	10	52	36	Vitesse Semiconductor (8)	High	IV 98	34.2	III 98	-14.6			800-525-8983	
A	NA	NA	NA	1	Very high	2	6	45	16	Comcast Special Cl. A (4)		NA		NA				800-525-8983	
3	21.6	NA	NA	211	High	14	9	45	24	Time Warner (4)	Average	IV 98	21.5	III 98	-9.0			800-525-8983	
3	23.1	NA	NA	11	High	4	10	50	30	Time Warner (6)	Average	IV 98	30.0	III 98	-6.9			800-525-8983	
A	NA	NA	NA	1	Very high	17	8	54	42	America Online (6)		NA		NA				800-525-8983	
A	NA	NA	NA	2	Average	16	97	36	17	Wolters Kluwer (3)		NA		NA				800-525-8983	
A	NA	NA	NA			1	4	40	12	Time Warner (9)		NA		NA				800-525-8983	
6	25.9	25.8	23.6	1221	High	10	5	53	39	Dell Computer (12)	Average	IV 98	29.7	II 94	-6.4			800-525-8983	
9	11.6	17.0	14.2	1133	High	5	5	43	19	Wind River Systems (4)	High	IV 98	25.0	III 98	-14.1			800-525-8983	
3	17.6	NA	NA	112	Average	17	70	41	23	Microsoft (3)	Average	IV 98	20.2	III 98	-16.1			800-525-8983	
1	-2.0	-0.6	-2.4	4334	High	6	100	37	-17	Murata Manufacturing (5)	Very high	IV 98	27.0	IV 97	-18.1			800-535-2726	
A	NA	NA	NA			8	1	24	11	Applied Power Cl. A (4)		NA		NA				800-282-2319	
4	14.2	20.9	20.1	1114	Average	18	9	32	33	Cendant (6)	High	IV 98	17.1	III 98	-18.7			800-237-0132	
2	15.0	16.1	13.7	1222	Very high	6	4	31	17	Abbott Laboratories (2)	Average	IV 98	19.2	III 98	-13.0			800-621-1048	
1	10.0	NA	NA	33	Average	6	51	38	36	Network Appliance (5)	Average	IV 98	20.3	III 98	-16.6			800-621-1048	
0	10.5	15.9	13.3	1333	High	1	2	38	21	Sun Microsystems (3)	High	IV 98	27.6	III 98	-22.2			800-621-1048	
3	6.5	8.7	6.9	4334	Average	5	100	30	8	Viag (4)	Average	IV 98	14.5	III 98	-17.9			800-621-1048	
3	13.4	NA	NA	11	Low	7	2	17	-4	S&P Midcap 400 (2)	High	II 95	16.4	III 98	-24.1			800-621-1048	
1	8.2	14.8	12.1	1134	High	8	3	34	19	Sofamor/Danek Group (3)	High	IV 98	22.5	III 98	-22.9			800-621-1048	
2	19.4	19.4	15.3	3331	Very high	5	3	43	33	Cisco Systems (4)	High	IV 98	37.5	IV 97	-13.8			800-621-1048	
9	9.7	13.9	11.0	2332	High	1	2	32	14	General Electric (2)	Low	II 97	13.1	III 98	-6.7			800-621-1048	

DATA: MORNINGSTAR, INC., CHICAGO, IL.

MUTUAL FUND SCOREBOARD

FUND	OVERALL RATING (COMPARES RISK-ADJUSTED PERFORMANCE OF EACH FUND AGAINST ALL FUNDS)	CATEGORY	RATING (COMPARES RISK-ADJUSTED PERFORMANCE OF FUND WITHIN CATEGORY)	SIZE ASSETS \$MIL.	% CHG. 1997-98	FEES SALES CHARGE (%)	EXPENSE RATIO (%)	1998 RE- TURN PRE- TAX
KEMPER VALUE S (vv)	B+	Large-cap Value	B+	468.8	33	No load	1.23	11.9
KEMPER-DREMAN HIGH RETURN EQUITY A	B	Large-cap Value	B	2505.2	67	5.75	1.22	12.0
KEYPREMIER ESTABLISHED GROWTH		Large-cap Blend		260.9	22	4.50	0.44	19.5
KOPP EMERGING GROWTH A		Small-cap Growth		304.4	7	3.50	NA†	0.3
LEGG MASON AMER. LEADING PRIMARY	B	Large-cap Blend	C-	238.8	39	No load	1.95†	21.3
LEGG MASON INTERNATIONAL EQUITY PRIM.		Foreign		258.5	13	No load	2.17†	8.5
LEGG MASON SPECIAL INVESTMENT PRIM. ‡	C-	Mid-cap Blend	F	1730.2	27	No load	1.86†	23.3
LEGG MASON TOTAL RETURN PRIMARY	C	Mid-cap Value	C	635.8	6	No load	1.88†	-0.4
LEGG MASON VALUE PRIMARY ‡	A	Large-cap Value	A	8079.2	119	No load	1.73†	48.0
LEXINGTON CORPORATE LEADERS	B	Large-cap Value	C	482.7	-8	No load	0.62	9.9
LEXINGTON GROWTH & INCOME	B	Large-cap Blend	C	245.7	8	No load	1.17†	21.4
LINDNER DIVIDEND INVESTOR ‡	C	Domestic Hybrid	F	1162.9	-35	2.00*	0.61	-4.0
LINDNER GROWTH INVESTOR ‡	D	Small-cap Value	D	617.2	-55	2.00*	0.44	-15.8
LKCM SMALL CAP EQUITY		Small-cap Blend		246.4	-4	No load	0.95	-6.3
LONGLEAF PARTNERS	A	Mid-cap Blend	A	3688.0	42	No load	0.94	14.3
LONGLEAF PARTNERS REALTY		Real Estate		776.3	5	No load	1.20	-13.0
LONGLEAF PARTNERS SMALL-CAP	A	Small-cap Value	A	1351.0	48	No load†	1.09	12.7
LOOMIS SAYLES SM. CAP VAL. INST.	C-	Small-cap Value	C-	346.3	41	No load	0.94	-1.1
LORD ABBETT AFFILIATED A	B	Large-cap Value	C	8051.3	4	5.75	0.65†	14.4
LORD ABBETT DEVELOPING GROWTH A	C-	Small-cap Growth	B+	825.7	85	5.75	1.06†	8.3
LORD ABBETT MID-CAP VALUE A	C	Mid-cap Value	C-	367.8	10	5.75	1.25†	-0.5
LORD ABBETT RESEARCH SMALL CAP A		Small-cap Blend		221.2	5	5.75	1.17†	-7.4
MAINSTAY CAPITAL APPREC. B	C	Large-cap Growth	C	2753.0	47	5.00**	1.61†	38.2
MAINSTAY EQUITY INDEX A	B+	Large-cap Blend	B	797.1	83	3.00	0.80†	27.7
MAINSTAY TOTAL RETURN B ‡	B	Domestic Hybrid	C	1482.4	24	5.00**	1.65†	26.0
MAINSTAY VALUE B ‡	C	Large-cap Value	D	1174.6	-16	5.00**	1.63†	-7.3
MAIRS & POWER GROWTH ‡	B+	Mid-Cap Blend	A	554.8	34	No load	0.84	9.4
MANAGERS INTL. EQUITY ‡	C	Foreign Stock	A	552.8	46	No load	1.45	14.5
MANAGERS SPECIAL EQUITY ‡	C-	Small-cap Growth	B+	956.5	33	No load	1.35	0.2
MARSHALL EQUITY-INCOME	B+	Large-cap Value	B	537.9	2	No load	1.22	10.5
MARSHALL INTERNATIONAL STOCK		Foreign		235.4	4	No load	1.59†	3.3
MARSHALL LARGE-CAP GROWTH & INCOME	C	Large-cap Blend	C-	360.7	25	No load	1.23	26.2
MARSHALL MID-CAP GROWTH	C-	Mid-cap Growth	C	262.6	21	No load	1.24	15.7
MARSICO FOCUS		Large-cap Growth		1204.5	NM	No load	1.56†	51.3
MARSICO GROWTH & INCOME		Large-cap Growth		373.7	NM	No load	1.51†	43.4
MAS BALANCED INSTITUTIONAL	B+	Domestic Hybrid	B	406.4	21	No load	0.56	15.4
MAS EQUITY INSTITUTIONAL ‡	B	Large-cap Value	C	904.5	-28	No load	0.59	19.7
MAS INTERNATIONAL EQUITY INST.	D	Foreign	C-	509.0	-10	No load	0.63	10.1
MAS MID CAP GROWTH INSTITUTIONAL	C-	Mid-cap Growth	B	509.2	17	No load	0.61	37.4
MAS MID CAP VALUE INSTITUTIONAL		Mid-cap Blend		501.2	96	No load	0.88	16.1
MAS SMALL CAP VALUE ‡	C	Small-cap Value	C	788.2	-10	No load†	0.86	-1.4
MAS VALUE INSTITUTIONAL ‡	B	Mid-cap Value	B	2461.9	-26	No load	0.61	-2.9
MASTERS' SELECT EQUITY ‡		Large-cap Blend		384.5	30	No load	1.47	14.9
MENTOR GROWTH B ‡	D	Small-cap Growth	B	387.8	-20	4.00**	2.03†	0.9
MERGER	A	Domestic Hybrid	A	346.0	-21	No load	1.33†	5.4
MERIDIAN ‡	C	Mid-cap Growth	B	227.9	-31	No load	0.95	3.1
MERRILL LYNCH BASIC VALUE B ‡	B	Large-cap Value	C	4695.9	7	4.00**	1.56†	10.5
MERRILL LYNCH CAPITAL B	B	Domestic Hybrid	C	5390.4	-1	4.00**	1.57†	5.1
MERRILL LYNCH DRAGON B	F	Pacific/Asia ex-Japan	C-	219.0	-42	4.00**	2.39†	-17.1
MERRILL LYNCH EUROFUND B	C	Europe	C	840.5	9	4.00**	2.06†	23.8
MERRILL LYNCH FUNDAMENTAL GR. B		Large-cap Growth		927.8	229	4.00**	2.16†	33.4
MERRILL LYNCH GLOBAL ALLOCATION B	C	International Hybrid	B	6716.8	-30	4.00**	1.85†	-0.4
MERRILL LYNCH GLOBAL GROWTH C		World		292.3	54	1.00**	NA†	31.0
MERRILL LYNCH GLOBAL UTILITY B	C	Utilities	C-	327.6	6	4.00**	1.59†	24.7
MERRILL LYNCH GLOBAL VALUE B		World		1893.6	51	4.00**	1.99†	25.8
MERRILL LYNCH GROWTH B	D	Mid-cap Blend	F	2307.7	-48	4.00**	1.79†	-24.2
MERRILL LYNCH HEALTHCARE B ‡	B	Health	C	223.8	26	4.00**	2.44†	31.8
MERRILL LYNCH PACIFIC B ‡	D	Diversified Pacific/Asia	A	505.4	-35	4.00**	1.90†	7.3
MERRILL LYNCH PHOENIX B ‡	C-	Mid-cap Blend	F	239.1	-22	4.00**	2.26†	3.7
MERRILL LYNCH S&P 500 INDEX D		Large Blend		375.8	139	No load	NA†	28.0
MERRILL LYNCH SPECIAL VALUE B	C-	Small Value	D	471.4	-10	4.00**	2.13†	-6.6
MFS CAPITAL OPPORTUNITIES A (ww)	B+	Mid-cap Blend	B+	1020.5	64	5.75	1.29†	27.1
MFS EMERGING GROWTH B ‡	C-	Mid-cap Growth	C	6905.2	37	4.00**	1.97†	23.6
MFS GLOBAL EQUITY A (xx)	C	World	B	301.0	66	5.75	1.63†	17.4
MFS GLOBAL GROWTH B (yy)	C-	World	C	288.9	-5	4.00**	2.28†	11.4
MFS GROWTH OPPORTUNITIES A	C-	Large-cap Growth	D	1111.5	17	5.75	0.84†	29.2
MFS LARGE CAP GROWTH B	B+	Large-cap Blend	C	475.9	11	4.00**	2.05†	31.3
MFS MANAGED SECTORS A ‡	C-	Mid-cap Blend	D	299.1	8	5.75	1.38†	11.5
MFS MASSACHUSETTS INVESTORS A	A	Large-cap Blend	B+	7141.8	66	5.75	0.74†	23.0
MFS MASSACHUSETTS INVESTORS GROWTH A	B	Large-cap Growth	B	3312.0	89	5.75	0.71†	40.0

*Includes redemption fee. **Includes deferred sales charge. †12(b)-1 plan in effect. ‡Not currently accepting new accounts. \$Less than 0.5% of assets. NA=Not available. N (vv) Formerly Scudder Value. (ww) Formerly MFS Value A. (xx) Formerly MFS World Equity A. (yy) Formerly MFS World Growth B.

Equity Funds

AL TOTAL RETURNS (%) HISTORY										PORTFOLIO DATA				RISK				TELEPHONE	
5 YEARS		10 YEARS		RESULTS VS. ALL FUNDS	TURNOVER	CASH %	FOREIGN %	P-E RATIO	UNTAXED GAINS (%)	LARGEST HOLDING COMPANY (% ASSETS)	LEVEL	BEST		WORST					
RETAX	AFTERTAX	PRETAX	AFTERTAX									QTR	%RET	QTR	%RET				
9.8	18.0	NA	NA	21	Average	14	13	23	12	S&P 500 Index (Fut.) (5)	Low	IV 98	17.1	III 98	-15.3			800-621-1048	
2.5	21.0	19.2	17.0	2211	Very low	6	2	21	10	S&P 500 Index (Fut.) (18)	Average	IV 98	14.2	III 98	-7.7			800-621-1048	
NA	NA	NA	NA			0	3	32	52	Schering-Plough (7)			NA		NA			800-766-3960	
NA	NA	NA	NA			NA	5	38	NA	Rational Software (9)			NA		NA			612-841-0400	
7.8	16.7	NA	NA	31	Average	1	4	26	28	IBM (5)	Average	IV 98	24.0	III 98	-11.9			800-577-8589	
NA	NA	NA	NA	4	Average	3	100	20	6	Telecom Italia (2)			NA		NA			800-577-8589	
5.6	14.4	18.5	17.1	1141	Low	2	7	33	34	America Online (15)	High	IV 98	40.1	III 98	-20.5			800-577-8589	
3.8	14.7	14.5	12.8	4132	Low	4	12	20	22	IBM (8)	Average	III 97	13.8	III 98	-15.8			800-577-8589	
2.0	30.6	20.9	19.7	4211	Very low	5	11	30	54	America Online (15)	Average	IV 98	35.9	III 98	-11.6			800-577-8589	
3.0	15.7	16.4	13.8	2241		1	2	28	29	General Electric (7)	Average	II 97	13.5	III 98	-9.5			800-526-0056	
3.9	15.5	15.8	12.4	3231	Average	1	4	36	33	Safeway (3)	Average	IV 98	22.0	III 98	-12.3			800-526-0056	
1.5	4.4	10.3	7.2	4134	Low	2	12	15	-6	CSC Hldgs. (4)	Low	II 95	6.7	III 98	-7.9			314-727-5305	
1.7	2.4	9.0	6.3	4234	Low	6	18	16	6	Alliant Techsystems (5)	High	III 97	13.3	III 98	-19.5			314-727-5305	
NA	NA	NA	NA	3	Low	19	3	24	18	Kirby (3)			NA		NA			817-332-3235	
1.8	16.7	17.9	15.1	3112	Low	2	32	21	14	FDX UK (9)	Low	IV 98	18.5	III 98	-18.4			800-445-9469	
NA	NA	NA	NA	3	Low	1	7	24	-2	Host Marriott (10)			NA		NA			800-445-9469	
1.5	16.3	13.5	12.0	4321	Very low	8	29	24	11	Shaw Comms. Cl. B (Can.) (12)	Very low	IV 98	14.5	III 98	-13.4			800-445-9469	
1.5	11.7	NA	NA	123	Average	12	1	21	5	Intl. Multifoods (1)	Average	IV 98	18.1	III 98	-18.6			800-633-3330	
1.7	15.3	15.7	12.4	3222	Average	2	4	27	33	IBM (4)	Low	IV 98	17.1	III 98	-11.6			800-874-3733	
1.8	18.0	17.2	14.6	3312	Low	6	4	32	25	Plantronics (4)	High	IV 98	28.3	III 98	-22.0			800-874-3733	
1.1	10.4	13.8	10.7	3232	Average	3	4	21	24	Tricon Global Restaurants (4)	Average	II 97	13.8	III 98	-17.3			800-874-3733	
NA	NA	NA	NA	3	Average	3	NA	26	-9	Electronics for Imaging (7)			NA		NA			800-874-3733	
1.9	21.4	22.4	20.9	1121	Low	7	2	43	52	Tyco Intl. (3)	Average	IV 98	26.9	III 98	-8.3			800-624-6782	
1.9	21.7	NA	NA	411	Very low	1	3	33	38	Microsoft (3)	Low	IV 98	21.2	III 98	-10.1			800-624-6782	
1.8	14.4	14.7	13.2	2332	Very high	2	2	45	38	Tyco Intl. (2)	Low	IV 98	16.9	III 98	-4.3			800-624-6782	
1.7	9.3	14.3	11.9	2123	Average	6	4	21	-5	Texas Utilities (3)	Average	II 97	11.2	III 98	-16.6			800-624-6782	
1.9	21.8	20.5	18.9	1332	Very low	5	NA	27	28	Medtronic (4)	Average	II 97	19.0	III 98	-13.2			800-304-7404	
1.2	9.9	11.6	10.4	4133	Low	9	100	26	14	Hoechst (2)	Average	IV 98	13.9	III 98	-14.3			800-835-3879	
1.4	13.6	16.8	14.2	2113	Average	11	3	31	15	XTRA (1)	High	IV 98	19.8	III 98	-21.0			800-835-3879	
1.7	15.5	NA	NA	22	Average	6	4	24	16	Exxon (3)	Low	IV 98	11.7	III 98	-7.8			800-236-8560	
1A	NA	NA	NA	1	Low	7	95	17	15	Zurich Allied (2)			NA		NA			800-236-8560	
1.1	15.8	NA	NA	31	Low	12	3	34	39	General Electric (3)	Average	IV 98	22.7	III 98	-10.1			800-236-8560	
1.7	14.5	NA	NA	13	Very high	9	4	45	26	America Online (4)	High	IV 98	30.6	III 98	-22.9			800-236-8560	
1A	NA	NA	NA			1	3	38	5	EMC/Mass. (10)			NA		NA			888-860-8686	
1A	NA	NA	NA			2	7	37	13	Time Warner (5)			NA		NA			888-860-8686	
1.7	11.5	NA	NA	32	High	23	5	29	7	Microsoft (2)	Very low	IV 98	12.2	III 98	-6.8			800-354-8185	
1.4	14.0	17.5	13.6	1312	Average	1	5	29	-2	Microsoft (4)	Average	IV 98	21.3	III 98	-14.4			800-354-8185	
1.6	3.5	8.8	7.2	4243	Average	3	97	22	13	Lafarge (France) (3)	High	IV 98	14.9	III 98	-14.1			800-354-8185	
1.9	17.9	NA	NA	111	High	1	7	40	29	Health Mgt. Assoc. Cl. A (2)	High	IV 98	36.0	III 98	-19.1			800-354-8185	
1A	NA	NA	NA	1	Very high	9	2	26	9	Allmerica Financial (3)			NA		NA			800-354-8185	
1.6	12.2	17.8	15.0	3133	High	9	5	23	-5	CalEnergy (2)	Average	III 97	18.3	III 98	-18.3			800-354-8185	
1.0	13.4	16.2	12.1	2213	Average	13	1	18	0	S&P Index 500 (Fut.) (5)	Average	II 97	14.6	III 98	-19.1			800-354-8185	
1A	NA	NA	NA		High	3	17	24	18	Media One Group (3)			NA		NA			800-960-0188	
1.9	11.0	14.9	12.6	3114	Average	12	2	35	28	Markel (2)	High	IV 98	22.6	III 98	-22.7			800-382-0016	
1.6	7.2	NA	NA	334	Very high	-12	7	28	-5	Allied Group (9)	Very low	IV 98	7.3	III 98	-6.0			800-343-8959	
1.0	8.1	15.7	13.2	1133	Low	2	NA	31	9	Kohl's (3)	Average	IV 98	17.3	III 98	-18.8			800-446-6662	
1.0	15.1	13.8	12.0	2132	Low	15	12	20	35	IBM (3)	Low	II 97	14.2	III 98	-11.5			800-637-3863	
1.1	10.5	12.5	10.2	3333	Low	4	18	29	21	Williams Companies (2)	Low	IV 98	10.8	III 98	-11.7			800-637-3863	
1.5	-14.4	NA	NA	24	Low	18	100	20	-56	Hong Kong Telecom ADR (7)	Very high	IV 98	22.7	IV 97	-30.2			800-637-3863	
1.0	12.2	14.0	11.5	3331	Average	6	100	27	3	Telecom Italia (5)	Average	IV 98	22.6	III 98	-18.7			800-637-3863	
1A	NA	NA	NA	1	Average	5	9	40	26	Wal-Mart Stores (4)			NA		NA			800-637-3863	
1.5	5.8	NA	NA	234	Average	5	49	24	-7	Nikkei 225 Index (Fut.) (3)	Very low	IV 98	9.3	III 98	-13.2			800-637-3863	
1A	NA	NA	NA			NA	68	33	NA	SAP (3)			NA		NA			800-637-3863	
1.3	12.0	NA	NA	242	Very low	3	64	25	46	Telefonica (6)	Average	IV 98	15.1	I 94	-7.5			800-637-3863	
1A	NA	NA	NA		Average	7	45	26	22	Cadbury Schweppes (5)			NA		NA			609-282-2800	
1.3	7.7	13.6	11.9	11214	Low	14	5	28	9	Burlington Resources (7)	High	III 97	19.2	III 98	-19.5			800-637-3863	
1.3	17.0	14.3	10.2	3311	High	4	16	47	20	Pfizer (7)	Average	IV 98	19.7	II 94	-8.9			800-637-3863	
1.7	1.0	5.0	3.2	4334	Low	7	100	30	-16	Lend Lease (8)	High	IV 98	19.6	IV 97	-19.0			800-637-3863	
1.5	5.5	11.8	7.9	4133	Average	9	10	31	-13	Novell (8)	High	I 98	16.9	III 98	-19.1			800-637-3863	
1A	NA	NA	NA			2	3	32	NA	General Electric (3)			NA		NA			609-282-2800	
1.1	9.0	9.7	7.9	4333	High	12	4	23	5	VISX (5)	High	II 97	19.1	III 98	-26.0			800-637-3863	
1.5	18.0	18.0	14.4	4111	High	8	14	34	22	Tyco Intl. (8)	Average	IV 98	24.0	III 98	-14.1			800-637-2929	
1.7	19.4	22.9	22.5	1112	Low	1	4	42	44	Cisco Systems (7)	High	IV 98	28.0	III 98	-18.1			800-637-2929	
1.7	11.3	NA	NA	33	Average	9	61	26	18	Rite Aid (3)	Average	IV 98	19.2	III 98	-13.5			800-637-2929	
1.7	8.9	NA	NA	33	High	6	55	35	15	Cisco Systems (3)	Average	IV 98	20.7	III 98	-17.0			800-637-2929	
1.6	16.8	13.1	2321	Average	4	2	42	38	38	Microsoft (7)	High	IV 98	24.2	III 98	-13.6			800-637-2929	
1.6	15.5	17.1	14.0	2411	High	4	2	41	25	Tyco Intl. (10)	Average	IV 98	24.2	III 98	-12.2			800-637-2929	
1.1	11.8	NA	NA	22	High	1	1	32	34	Tyco Intl. (10)	High	IV 98	23.7	III 98	-19.1			800-637-2929	
1.9	19.9	19.2	15.2	1331	Low	7	6	31	29	Philip Morris (2)	Low	IV 98	18.6	III 98	-10.9			800-637-2929	
1.9	19.9	21.7	17.4	1131	Average	8	2	39	30	Microsoft (6)	Average	IV 98	25.5	III 98	-10.1			800-637-2929	

DATA: MORNINGSTAR, INC., CHICAGO, IL.

MUTUAL FUND SCOREBOARD

FUND	OVERALL RATING (COMPARES RISK-ADJUSTED PERFORMANCE OF EACH FUND AGAINST ALL FUNDS)	CATEGORY	RATING (COMPARES RISK-ADJUSTED PERFORMANCE OF FUND WITHIN CATEGORY)	SIZE ASSETS \$ MIL.	% CHG. 1997-98	FEES SALES CHARGE (%)	EXPENSE RATIO (%)	1998 RETU PRE- TAX	AFT TAX
MFS RESEARCH A	C	Large-cap Blend	C-	3200.7	36	5.75	0.96†	22.9	22
MFS STRATEGIC GROWTH B		Large-cap Growth		359.9	596	4.00**	2.08†	44.2	43
MFS TOTAL RETURN A	B+	Domestic Hybrid	B+	3810.8	17	4.75	0.93†	11.9	7
MFS UTILITIES B	B+	Utilities	A	442.1	269	4.00**	1.87†	17.0	14
MONTAG & CALDWELL GROWTH N		Large-cap Growth		1157.2	111	No load	1.23†	31.9	31
MONTGOMERY EMERGING MARKETS R	F	Diversified Emerging Mkts.	C	338.4	-66	No load	1.60	-38.3	-38
MONTGOMERY GLOBAL COMMUN. R	D	Communications	C-	282.1	107	No load	1.90	55.0	51
MONTGOMERY GROWTH R	C	Mid-cap Blend	B	1047.8	-23	No load	1.19	2.1	0
MONTGOMERY U.S. EMERG. GROWTH R (zz)		Small-cap Growth		410.4	11	No load†	1.56	7.9	6
J.P. MORGAN DIVERSIFIED	A	Domestic Hybrid	B+	241.0	140	No load	0.98	18.3	16
J.P. MORGAN U.S. EQUITY	B	Large-cap Blend	C	428.7	8	No load	0.78	24.5	19
J.P. MORGAN U.S. SMALL CO.	C-	Small-cap Blend	C	203.4	-23	No load	0.97	-5.5	-8
MSDW AMERICAN VALUE B (aaa)	C	Large-cap Growth	C	5748.7	41	5.00**	1.46†	31.1	26
MSDW CAPITAL APPRECIATION B (bbb)		Small-cap Growth		219.5	-38	5.00**	NA†	-1.3	-2
MSDW CAPITAL GROWTH SECURITIES B (ccc)	C	Large-cap Growth	D	500.6	0	5.00**	1.84†	17.0	14
MSDW DEVELOPING GROWTH B (ddd)	D	Small-cap Growth	C	709.4	-12	5.00**	1.68†	7.8	7
MSDW DIVIDEND GROWTH SECURITIES B (eee)	B+	Large-cap Blend	C	18483.2	18	5.00**	1.14†	17.8	16
MSDW EUROPEAN GROWTH B (fff)	B	Europe	B	2226.9	29	5.00**	2.42†	22.5	20
MSDW FINANCIAL SERVICES B (ggg)		Financial		421.9	48	5.00**	NA†	17.2	14
MSDW GLOBAL DIV. GROWTH SECURITIES B (hhh)	C	World	B	3544.2	0	5.00**	1.71†	11.5	9
MSDW GLOBAL UTILITIES B (iii)		Utilities		521.6	41	5.00**	1.8†	37.6	34
MSDW GROWTH B (jjj)	C-	Large-cap Blend	F	867.8	6	5.00**	1.64†	21.5	16
MSDW HEALTH SCIENCES B (kkk)	D	Health	D	367.8	-7	5.00**	2.26†	18.3	13
MSDW INCOME BUILDER B (lll)		Domestic Hybrid		431.0	6	5.00**	NA†	1.7	-1
MSDW INFORMATION B (mmm)		Communications		386.8	64	5.00**	2.05†	54.8	51
MSDW MID-CAP GROWTH B (nnn)		Mid-cap Growth		581.3	-4	5.00**	1.99†	4.4	0
MSDW PACIFIC GROWTH B (ooo)	F	Diversified Pacific/Asia	F	426.0	-32	5.00**	2.44†	-10.5	-10
MSDW S&P 500 INDEX B (ppp)		Large-cap Blend		932.5	221	5.00**	NA†	26.8	26
MSDW SPECIAL VALUE B (qqq)		Small-cap Value		331.2	-8	5.00**	NA†	-7.3	-9
MSDW STRATEGIST B (rrr)	B	Domestic Hybrid	C-	1704.7	14	5.00**	1.56†	15.4	13
MSDW UTILITIES B (sss)	B	Utilities	D	2751.6	13	5.00**	1.67†	22.0	19
MSDW VALUE-ADDED MARKET EQ. B (ttt)	C	Large-cap Value	D	1481.4	-1	5.00**	1.36†	11.2	9
MUNDER INDEX 500 A	A	Large-cap Blend	B+	246.2	86	2.50	0.39†	28.0	27
MUTUAL BEACON Z	B+	Mid-cap Value	B+	4039.5	-29	No load†	0.74	2.4	0
MUTUAL DISCOVERY Z	B	World	A	2523.9	-35	No load†	0.98	-1.9	-1
MUTUAL EUROPEAN Z		Europe		484.0	-11	No load†	1.02	4.7	0
MUTUAL QUALIFIED Z	B+	Mid-cap Value	B+	3962.3	-24	No load†	0.75	0.5	-1
MUTUAL SHARES Z	B	Mid-cap Value	B+	6289.6	-21	No load†	0.72	0.5	-1
NATIONWIDE D (uuu)	A	Large-cap Blend	A	2320.9	50	4.50	0.60	30.3	28
NATIONWIDE GROWTH D (vvv)	B	Large-cap Blend	C-	944.7	13	4.50	0.64	23.8	22
NEUBERGER & BERMAN FOCUS	C-	Large-cap Value	F	1369.6	0	No load	0.84	13.2	11
NEUBERGER & BERMAN GENESIS	C	Small-cap Blend	B+	1210.5	-3	No load	1.11	-7.0	-7
NEUBERGER & BERMAN GUARD	C-	Large-cap Value	F	4502.6	-25	No load	0.79	2.4	-1
NEUBERGER & BERMAN MANHATTAN	C-	Mid-cap Growth	C	563.7	-1	No load	0.95	16.4	14
NEUBERGER & BERMAN PARTNERS	C	Large-cap Value	D	3239.4	0	No load	0.80	6.3	4
NEW ECONOMY	C	Large-cap Blend	D	6530.6	31	5.75	0.81†	28.8	20
NEW ENGLAND BALANCED A	B	Domestic Hybrid	C-	223.4	-4	5.75	1.29†	8.2	7
NEW ENGLAND GROWTH A	C	Large-cap Blend	F	1826.2	25	5.75	1.12†	33.4	28
NEW ENGLAND GROWTH OPPORT. A	B	Large-cap Value	B	300.7	36	5.75	1.25†	24.0	20
NEW ENGLAND STAR ADVISERS B		Mid-cap Growth		508.4	10	5.00**	2.41†	18.2	13
NEW ENGLAND VALUE A	C	Large-cap Value	D	318.4	-9	5.75	1.25†	7.1	0
NEW PERSPECTIVE	B	World	B+	21257.0	31	5.75	0.77†	28.5	24
NEWPORT TIGER B (www)		Pacific/Asia ex-Japan		280.7	-23	5.00**	2.48†	-12.9	-11
NICHOLAS	B	Mid-cap Blend	B+	5823.5	11	No load	0.71	13.1	11
NICHOLAS II	C	Mid-cap Growth	A	1109.5	8	No load	0.61	9.2	7
NICHOLAS LIMITED EDITION	C	Small-cap Growth	A	367.2	12	No load	0.86	1.7	0
NICHOLAS-APPLGATE GROWTH EQ. B	D	Mid-cap Growth	C-	235.9	-17	5.00**	2.19†	11.9	10
NORTHERN GROWTH EQUITY		Large-cap Growth		594.7	41	No load	1.00	33.2	30
NORTHERN INTL. GROWTH EQUITY		Foreign		206.9	26	No load	1.25	23.9	21
NORTHERN SMALL CAP		Small-cap Value		314.3	-7	No load	1.00	-5.9	-6
NORTHERN TECHNOLOGY		Technology		227.8	182	No load	1.25	83.0	80
NORTHSTAR INTL. VALUE A		Foreign		231.8	278	4.75	1.80†	13.5	11
NUVEEN GROWTH & INCOME STOCK A		Large-cap Value		715.1	5	5.25	1.20†	9.9	9
OAK VALUE	B+	Mid-cap Blend	A	560.8	301	No load	1.22	18.9	17
OAKMARK	B	Large-cap Value	C	7779.3	7	No load	1.08	3.7	2
OAKMARK INTERNATIONAL	D	Foreign	D	815.9	-34	No load	1.32	-7.0	-7
OAKMARK SELECT		Mid-cap Value		1315.3	34	No load	1.22	16.2	14
OAKMARK SMALL CAP		Small-cap Value		747.7	-50	No load	1.45	-13.2	-14
OLSTEIN FINANCIAL ALERT		Mid-cap Value		273.4	26	2.50**	2.25†	15.0	11
ONE GROUP EQUITY INDEX B		Large-cap Blend		412.4	71	5.00**	1.35†	27.0	24

*Includes redemption fee. **Includes deferred sales charge. †12(b)-1 plan in effect. ‡Not currently accepting new accounts. \$Less than 0.5% of assets. NA=Not available. NM=Not Montagu. (zz) Formerly Montgomery Micro Cap R. (aaa) Formerly Dean Witter American Value B. (bbb) Formerly Dean Witter Capital Appreciation B. (ccc) Formerly Dean Witter Capital (ddd) Formerly Dean Witter Developing Growth Secs. B. (eee) Formerly Dean Witter Dividend Growth Secs. B. (fff) Formerly Dean Witter European Growth B. (ggg) Formerly Dean Witter Financial Services B. (hhh) Formerly Dean Witter Global Dividend Gr. Secs. B. (iii) Formerly Dean Witter Global Utilities B. (jjj) Formerly TCW/DW Core Equity B. (kkk) Formerly Dean Witter

Equity Funds

ANNUAL TOTAL RETURNS (%) HISTORY										PORTFOLIO DATA		RISK		TELEPHONE	
5 YEARS		10 YEARS		RESULTS VS. ALL FUNDS	TURNOVER	CASH %	FOREIGN %	P-E RATIO	UNTAXED GAINS (%)	LARGEST HOLDING COMPANY (% ASSETS)	LEVEL	BEST		WORST	
PRETAX	AFTER TAX	PRETAX	AFTER TAX									QTR	%RET	QTR	%RET
20.7	18.6	18.4	15.8	31112	Average	2	8	33	25	Microsoft (5)	Average	IV 98	22.0	III 98	-15.0
NA	NA	NA	NA	NA	Average	6	2	40	16	Microsoft (8)	NA	NA	NA	NA	NA
13.8	10.6	13.5	10.6	33322	High	10	10	26	9	British Petroleum ADR (1)	Very low	II 97	9.3	III 98	-3.9
17.6	14.6	NA	NA	31	High	6	18	24	9	KN Energy (3)	Low	IX 96	11.8	III 98	-3.8
NA	NA	NA	NA	1	Low	3	3	40	26	Bristol-Myers Squibb (5)	NA	NA	NA	NA	NA
-10.8	-11.3	NA	NA	44	High	7	97	17	NA	Liberty Life Assn. of Africa (2)	Very high	III 94	17.6	III 98	-24.7
14.4	12.5	NA	NA	41	Average	3	67	33	26	Global TeleSystems Group (9)	High	I 98	38.7	III 98	-20.2
17.9	15.3	NA	NA	13	Average	5	8	26	16	Avid Technology (3)	Average	IX 98	17.0	III 98	-19.3
NA	NA	NA	NA	3	Low	2	NA	29	31	Duane Reade (4)	NA	NA	NA	NA	NA
15.1	13.4	NA	NA	32	Average	2	21	31	15	Intel (1)	Very low	IV 98	13.4	III 98	-6.2
20.6	16.0	18.6	15.1	13221	High	1	2	31	16	BankAmerica (New) (3)	Average	IV 98	21.3	III 98	-11.2
11.7	8.2	13.3	10.9	41233	High	2	4	25	-5	RenaissanceRe Holdings (2)	High	IX 98	15.9	III 98	-21.6
20.4	16.6	19.7	16.7	11221	Very high	11	4	40	21	Comcast Special Cl. A (2)	Average	IV 98	17.9	III 98	-7.3
NA	NA	NA	NA	4	NA	6	6	44	NA	CGI Group (2)	NA	NA	NA	NA	NA
15.6	13.0	NA	NA	422	High	2	5	47	15	MCI WorldCom (5)	Average	IV 98	19.8	III 98	-15.0
14.1	11.8	15.0	13.6	31114	High	17	3	36	21	BISYS Group (1)	High	IV 98	24.5	III 98	-20.4
18.2	17.2	16.1	14.9	23222	Very low	5	5	29	53	Schering-Plough (3)	Low	II 97	15.7	III 98	-9.1
19.2	16.7	NA	NA	212	Low	3	100	30	27	British Telecomm. (2)	Average	I 98	19.9	III 98	-15.8
NA	NA	NA	NA	3	NA	10	3	29	NA	Provident Financial (4)	NA	NA	NA	NA	NA
13.3	11.0	NA	NA	23	Average	4	64	22	11	Northrop Grumman (1)	Low	IV 98	16.6	III 98	-12.6
NA	NA	NA	NA	1	Very low	25	41	28	41	BellSouth (3)	NA	NA	NA	NA	NA
15.2	13.0	NA	NA	32	Average	3	NA	37	39	United Technologies (8)	High	IV 98	25.1	III 98	-14.2
13.9	11.6	NA	NA	14	High	8	3	48	22	Allegiance (4)	Very high	IV 95	19.0	I 97	-13.5
NA	NA	NA	NA	3	NA	2	1	19	NA	Loral Space & Communications (1)	NA	NA	NA	NA	NA
NA	NA	NA	NA	2	Very high	7	2	48	37	America Online (5)	NA	NA	NA	NA	NA
NA	NA	NA	NA	3	Very high	3	1	44	7	Citrix Systems (3)	NA	NA	NA	NA	NA
-13.2	-13.8	NA	NA	144	Low	3	100	23	NA	Hong Kong Telecomm. (5)	Very high	IV 98	26.6	IV 97	-28.6
NA	NA	NA	NA	4	NA	4	2	33	NA	Microsoft (3)	NA	NA	NA	NA	NA
NA	NA	NA	NA	10	NA	10	9	17	NA	Paxar (4)	NA	NA	NA	NA	NA
13.4	11.0	13.8	11.8	13333	High	14	1	29	22	Media One Group (2)	Low	I 98	10.2	III 98	-8.8
13.4	11.5	12.9	11.0	33422	Very low	5	9	24	47	SBC Communications (3)	Low	IV 97	13.2	I 94	-6.5
26.3	15.4	14.6	13.7	33222	Low	0	2	27	41	MCI WorldCom (5)	Average	IV 98	16.5	III 98	-14.1
15.3	21.7	NA	NA	11	Very low	3	2	33	35	S&P 500 Index (Fut.) (3)	Low	IV 98	21.1	III 98	-10.0
15.2	12.3	14.5	11.9	41113	Average	21	38	21	17	Chase Manhattan (3)	Low	IX 98	12.6	III 98	-17.5
15.0	12.4	NA	NA	13	Average	18	66	20	10	Kansas City Southern Inds. (2)	Low	I 98	11.2	III 98	-19.4
NA	NA	NA	NA	NA	High	21	97	18	16	Suez Lyonnaise Des Eaux (3)	NA	NA	NA	NA	NA
15.3	12.1	14.3	11.2	41123	Average	19	29	21	17	Chase Manhattan (3)	Low	IV 98	12.6	III 98	-17.7
15.7	12.2	14.3	11.1	31223	Average	23	22	21	21	Chase Manhattan (5)	Low	IX 98	13.3	III 98	-17.0
24.1	21.6	18.9	16.4	14221	Very low	1	NA	28	48	Warner-Lambert (9)	Low	II 97	18.5	III 98	-9.7
18.9	16.4	15.1	12.9	42221	Average	2	2	37	41	MCI WorldCom (7)	Average	II 97	18.3	III 98	-10.7
17.6	15.4	17.0	14.3	31122	Average	6	3	23	44	Citigroup (8)	High	IV 98	34.5	III 98	-27.5
15.3	14.3	14.1	13.1	32223	Low	8	0	19	5	Alliant Techsystems (3)	Average	III 97	20.1	III 98	-16.4
13.6	11.3	14.9	12.6	21123	Average	7	7	23	23	Countrywide Credit Industry (5)	High	IV 98	23.1	III 98	-26.2
15.8	12.3	15.4	12.0	22322	Average	3	5	39	27	Staples (3)	High	IV 98	27.5	III 98	-21.2
18.2	14.5	16.2	12.8	32222	High	5	5	24	15	SLM Holding (3)	Average	IV 98	16.4	III 98	-14.7
16.5	14.2	17.5	15.0	31141	Low	14	25	35	39	Viacom Cl. B (3)	Average	IV 98	22.1	III 98	-10.8
12.9	10.0	11.8	9.4	12233	Average	1	6	24	13	BellSouth (2)	Very low	II 97	10.1	III 98	-6.4
20.7	15.5	18.3	14.3	13331	Very high	1	20	30	19	Nokia Cl. A ADR (8)	High	IV 98	28.5	III 98	-18.1
21.5	16.9	17.4	14.0	23221	High	3	1	30	22	Wal-Mart Stores (3)	Average	IX 98	19.2	III 98	-12.3
NA	NA	NA	NA	2	High	6	4	34	18	Philip Morris (2)	NA	NA	NA	NA	NA
16.4	13.1	14.5	11.7	32222	Average	0	6	24	22	Exxon (4)	Average	IV 98	17.5	III 98	-15.2
16.5	14.5	15.7	13.7	32322	Low	16	57	33	35	Pfizer (3)	Low	IV 98	20.7	III 98	-10.2
NA	NA	NA	NA	4	Very low	5	100	18	-55	Cheung Kong Holdings (8)	NA	NA	NA	NA	NA
19.6	16.9	17.2	15.2	13221	Very low	13	2	31	50	Freddie Mac (5)	Average	IV 98	19.3	III 98	-15.9
18.3	15.2	15.3	13.1	24422	Low	4	9	32	40	Health Mgmt. Assoc. Cl. A (5)	Average	IV 98	16.0	III 98	-15.6
15.8	12.9	15.9	13.6	22113	Low	9	3	32	30	Intl Speedway Cl. B (6)	Average	IV 98	19.6	III 98	-17.0
12.0	9.0	NA	NA	133	Very high	2	4	36	35	Robert Half International (3)	High	IV 98	24.8	III 98	-18.4
NA	NA	NA	NA	1	Average	4	4	40	38	Microsoft (3)	NA	NA	NA	NA	NA
NA	NA	NA	NA	3	High	7	100	36	17	Novartis (Reg) (4)	NA	NA	NA	NA	NA
NA	NA	NA	NA	3	Low	0	3	19	12	Earthgrains (1)	NA	NA	NA	NA	NA
NA	NA	NA	NA	1	Average	3	2	49	43	Dell Computer (7)	NA	NA	NA	NA	NA
NA	NA	NA	NA	2	Low	6	100	24	12	Hutchison Whampoa (5)	NA	NA	NA	NA	NA
NA	NA	NA	NA	NA	Very high	6	20	25	15	BankAmerica (New) (4)	NA	NA	NA	NA	NA
11.8	20.7	NA	NA	21	Very low	2	NA	28	14	E.W. Scripps Cl. A (9)	Low	IV 98	24.4	III 98	-18.6
7.3	15.0	NA	NA	12	Low	12	3	23	15	Philip Morris (10)	Low	II 97	15.2	III 98	-13.8
3.9	1.3	NA	NA	44	Low	6	100	15	-32	Quilmes Industrial ADR (5)	High	IV 98	14.5	III 98	-19.4
NA	NA	NA	NA	NA	Average	12	19	23	12	Cablevision Sys. Cl. A (14)	NA	NA	NA	NA	NA
NA	NA	NA	NA	3	Low	8	2	21	6	Peoples Bank (CT) (8)	NA	NA	NA	NA	NA
NA	NA	NA	NA	1	Very high	27	NA	26	16	Texas Instruments (3)	NA	NA	NA	NA	NA
NA	NA	NA	NA	1	Very low	2	2	33	36	Microsoft (3)	NA	NA	NA	NA	NA

Formerly Dean Witter Income Builder B. (mmm) Formerly Dean Witter Information B. (nnn) Formerly Dean Witter Mid-Cap Growth B. (ooo) Formerly Dean Witter Pacific Growth
 Formerly Dean Witter S&P 500 Index B. (qqq) Formerly Dean Witter Special Value B. (rrr) Formerly Dean Witter Strategist B. (sss) Formerly Dean Witter Utilities B. (ttt) Formerly Dean
 Market Eq. B. (uuu) Formerly Nationwide. (vvv) Formerly Nationwide Growth. (www) Formerly Colonial Newport Tiger B.

DATA: MORNINGSTAR, INC., CHICAGO, IL.

MUTUAL FUND SCOREBOARD

FUND	OVERALL RATING (COMPARES RISK-ADJUSTED PERFORMANCE OF EACH FUND AGAINST ALL FUNDS)	CATEGORY	RATING (COMPARES RISK-ADJUSTED PERFORMANCE OF FUND WITHIN CATEGORY)	SIZE ASSETS \$MIL.	% CHG. 1997-98	FEES SALES CHARGE (%)	EXPENSE RATIO (%)	1998 RETU PRE- TAX	AFT TAX
ONE GROUP LARGE CO. GROWTH B		Large-cap Growth		382.8	108	5.00**	1.99†	43.2	39.
OPPENHEIMER CAPITAL APPREC. A	B	Large-cap Growth	B	1722.5	42	5.75	1.00†	24.0	22.
OPPENHEIMER DISCIPLINED ALLOCATION A	B	Domestic Hybrid	C	314.5	27	5.75	1.11†	10.9	9.
OPPENHEIMER DISCIPLINED VALUE A	C	Large-cap Value	D	490.1	27	5.75	1.07†	8.5	7.
OPPENHEIMER DISCOVERY A	D	Small-cap Growth	C-	1098.0	-12	5.75	1.22†	-2.0	-2.
OPPENHEIMER EQUITY-INCOME A	B	Domestic Hybrid	C	3259.8	9	5.75	0.87†	10.3	7.
OPPENHEIMER GLOBAL A	C-	World	C	3427.5	6	5.75	1.13†	12.7	10.
OPPENHEIMER GLOBAL GROWTH & INCOME A	C	International Hybrid	C-	256.7	37	5.75	1.43†	12.8	7.
OPPENHEIMER GROWTH A	B	Large-cap Blend	C-	1633.5	3	5.75	1.00†	11.0	8.
OPPENHEIMER MAIN ST. GROWTH & INC. A (xxx) A	B	Large-cap Blend	C	6525.2	35	5.75	0.90†	25.2	23.
OPPENHEIMER MULTIPLE STRATEGIES A	B	Domestic Hybrid	C-	672.2	-3	5.75	1.16†	7.1	4.
OPPENHEIMER QUEST CAPITAL VALUE A	C	Mid-cap Blend	C-	278.4	0	5.75	1.11†	20.2	19.
OPPENHEIMER QUEST GLOBAL VALUE A	C	World	B+	299.3	12	7.75***	1.73†	12.3	10.
OPPENHEIMER QUEST OPPORTUNITIES B	B	Large-cap Value	C	2059.6	13	5.00**	2.03†	7.2	6.
OPPENHEIMER QUEST VALUE A	B	Large-cap Value	B	1012.0	35	5.75	1.60†	9.5	8.
OPPENHEIMER TOTAL RETURN A	C	Large-cap Blend	C-	2602.3	16	5.75	0.89†	21.2	19.
PACIFIC HORIZON BLUE CHIP A		Large-cap Blend		400.1	58	5.50	1.18	27.9	26.
PAINWEBBER BALANCED A	B	Domestic Hybrid	C-	212.7	18	4.50	1.34†	17.9	15.
PAINWEBBER FINANCIAL SERVICES GROWTH A	B+	Financial	B+	223.0	34	4.50	1.17†	2.3	1.
PAINWEBBER GLOBAL EQUITY A	C-	World	C-	253.6	-11	4.50	1.44†	11.8	10.
PAINWEBBER GROWTH A	C-	Mid-cap Growth	B	276.6	29	4.50	1.27†	32.5	30.
PAINWEBBER GROWTH & INCOME A	B	Large-cap Blend	C	872.0	58	4.50	1.07†	18.1	16.
PAINWEBBER TACTICAL ALLOCATION C	B+	Large-cap Blend	B	555.2	87	1.00**	1.70†	26.7	26.
PAPP AMERICA-ABROAD	A	Large-cap Growth	A	342.8	19	No load	1.11	23.8	23.
PARNASSUS	D	Small-cap Value	F	274.7	-19	3.50	1.11	1.4	1.
PAX WORLD	A	Domestic Hybrid	A	837.6	33	No load	0.91†	24.6	22.
PAYDEN & RYSEL GROWTH & INCOME R		Large-cap Value		265.8	41	No load	0.54	18.1	17.
PBHG EMERGING GROWTH	D	Small-cap Growth	C-	1043.8	-31	No load	1.27	3.0	2.
PBHG GROWTH PBHG	D	Mid-cap Growth	D	3939.5	-28	No load	1.26	0.6	0.
PBHG LARGE CAP 20 PBHG		Large-cap Growth		545.2	368	No load	1.41	67.8	67.
PBHG SELECT EQUITY		Mid-cap Growth		289.9	-17	No load	1.35	19.0	19.
PBHG TECHNOLOGY & COMMUNICATIONS		Technology		396.3	-28	No load	1.30	26.0	25.
PEGASUS EQUITY INDEX A	A	Large-cap Blend	B+	321.6	66	3.00	0.57†	27.9	26.
PEGASUS GROWTH & VALUE A	B	Large Blend	C-	268.6	65	5.00	1.09†	13.1	10.
PEGASUS MID CAP OPPORTUNITIES A	C-	Mid-cap Blend	C-	278.3	19	5.00	1.09†	4.3	2.
PENNSYLVANIA MUTUAL INVESTORS	C	Small-cap Value	B	458.9	-10	1.00*	1.05	4.2	2.
PHOENIX AGGRESSIVE GROWTH A	C-	Mid-cap Growth	B	291.0	17	4.75	1.20†	29.6	29.
PHOENIX BALANCED A	B	Domestic Hybrid	C-	1684.2	0	4.75	0.98†	18.5	16.
PHOENIX GROWTH A	B	Large-cap Blend	C	2818.5	13	4.75	1.10†	29.5	27.
PHOENIX INCOME & GROWTH A	B	Domestic Hybrid	C-	584.9	27	4.75	1.13†	11.0	7.
PHOENIX MID CAP A	C-	Mid-cap Growth	C	308.0	-13	4.75	1.33†	19.5	13.
PHOENIX STRATEGIC ALLOCATION A	B	Domestic Hybrid	C-	319.0	3	4.75	1.17†	20.2	17.
PHOENIX-ENGEMANN GROWTH A	C	Large-cap Growth	D	441.7	15	4.75	1.60†	36.7	31.
PHOENIX-ENGEMANN FIFTY FIFTY A	C	Large-cap Growth	C	235.0	33	4.75	1.60†	35.1	31.
PILGRIM BANK & THRIFT B (yyy)		Financial		391.1	422	5.00**	1.95†	-2.5	-1.
PILGRIM MAGNACAP A (zzz)	B+	Large-cap Blend	C	340.3	5	5.75	1.37†	16.1	13.
PIMCO GROWTH C	C	Large-cap Growth	C	1942.1	25	1.00**	1.91†	38.9	31.
PIMCO INNOVATION C		Technology		327.1	95	1.00**	2.06†	78.1	71.
PIMCO MICRO CAP GROWTH INSTITUTIONAL	C-	Small-cap Blend	B	255.6	21	No load	1.51	-3.9	-1.
PIMCO OPPORTUNITY C	F	Small-cap Growth	D	369.8	-33	1.00**	2.06†	1.3	-1.
PIMCO RENAISSANCE C	B	Large-cap Blend	C	429.1	15	1.00**	2.01†	10.7	7.
PIMCO STOCKSPUS INSTITUTIONAL	A	Large-cap Blend	A	453.5	36	No load	0.65	28.3	22.
PIMCO TARGET C	C-	Mid-cap Growth	B	889.4	-6	1.00**	1.96†	23.3	22.
PIONEER A	B+	Large-cap Blend	B	5395.2	35	5.75	1.03†	29.1	22.
PIONEER BALANCED A	C	Domestic Hybrid	D	257.6	-6	4.50	1.19†	1.2	-1.
PIONEER CAPITAL GROWTH A	C	Mid-cap Value	D	1321.7	-17	5.75	0.98†	-4.7	-1.
PIONEER EQUITY-INCOME A	B+	Large-cap Value	B	638.7	29	5.75	1.11†	17.4	17.
PIONEER EUROPE A	C	Europe	C	346.1	115	5.75	1.78†	20.8	21.
PIONEER GROWTH A	B	Large-cap Growth	C	1404.5	139	5.75	0.99†	33.6	31.
PIONEER II A	C-	Mid-cap Value	D	6233.5	-13	5.75	0.90†	-8.0	-1.
PIONEER INTERNATIONAL GROWTH A	D	Foreign	F	313.6	-18	5.75	1.67†	-6.2	-1.
PIONEER MID-CAP A	D	Mid-cap Growth	D	891.1	-4	5.75	0.85†	10.0	7.
PREFERRED ASSET ALLOCATION	A	Domestic Hybrid	A	203.8	47	No load	0.92	27.1	22.
PREFERRED GROWTH	C	Large-cap Growth	C-	506.6	13	No load	0.84	35.9	31.
PREFERRED INTERNATIONAL	C-	Foreign	B	266.0	10	No load	1.20	10.6	7.
PREFERRED VALUE	B+	Large-cap Value	B+	389.3	14	No load	0.84	14.4	11.
T. ROWE PRICE BALANCED	B+	Domestic Hybrid	B	1649.8	35	No load	0.81	16.0	13.
T. ROWE PRICE BLUE CHIP GROWTH	A	Large-cap Blend	A	4330.1	85	No load	0.95	28.8	23.
T. ROWE PRICE CAPITAL APPRECIATION	A	Domestic Hybrid	A	1003.7	-5	No load	0.66	5.8	1.
T. ROWE PRICE DIVIDEND GROWTH	A	Large-cap Blend	A	1337.7	79	No load	0.80	15.0	13.

*Includes redemption fee. **Includes deferred sales charge. †12(b)-1 plan in effect. ‡Not currently accepting new accounts. \$Less than 0.5% of assets. NA=Not available, NM=Not measurable. (xxx) Formerly Oppenheimer Main St. Income & Growth A. (yyy) Formerly Pilgrim America Bank & Thrift B. (zzz) Formerly Pilgrim American MagnaCap A.

ANNUAL TOTAL RETURNS (%) HISTORY										PORTFOLIO DATA				RISK				TELEPHONE	
5 YEARS		10 YEARS		RESULTS VS. ALL FUNDS	TURNOVER	CASH %	FOREIGN %	P-E RATIO	UNTAXED GAINS (%)	LARGEST HOLDING COMPANY (% ASSETS)	LEVEL	BEST		WORST					
PRETAX	AFTERTAX	PRETAX	AFTERTAX									QTR	%RET	QTR	%RET				
NA	NA	NA	NA	1	High	0	1	41	35	Microsoft (7)			NA		NA			800-480-4111	
22.1	18.6	17.7	15.4	2211	Average	12	4	34	26	Microsoft (4)	Average	IV 98	26.7	III 98	-16.6			800-525-7048	
11.7	9.0	13.3	10.3	2222	High	1	1	26	11	US West (1)	Very low	IV 98	12.1	III 98	-6.6			800-525-7048	
16.6	14.3	17.4	14.4	2222	High	11	NA	27	16	IBM (3)	Average	IV 98	18.3	III 98	-15.4			800-525-7048	
8.6	7.0	15.1	13.5	2222	Average	6	4	39	24	Serologicals Holding (2)	High	II 97	18.5	III 98	-21.4			800-525-7048	
16.4	13.9	13.6	11.2	2222	Low	26	1	23	27	First Union (3)	Low	II 97	11.3	III 98	-7.9			800-525-7048	
12.8	10.2	14.3	12.0	2222	Average	8	66	29	20	Canal Plus (5)	Average	IV 98	20.5	III 98	-17.1			800-525-7048	
13.3	9.8	NA	NA	2222	Average	0	61	25	2	National Semiconductor (5)	Average	IV 98	20.7	III 98	-17.5			800-525-7048	
17.5	14.0	16.1	13.7	2222	Low	32	3	23	21	Compaq Computer (2)	Low	IV 98	17.7	III 98	-13.6			800-525-7048	
18.8	17.2	23.4	20.9	2222	Average	7	2	34	30	Microsoft (4)	Average	IV 98	22.1	III 98	-11.0			800-525-7048	
12.3	9.2	11.7	9.3	2222	Average	6	23	26	16	NationsBank (2)	Very low	IV 98	11.2	III 98	-10.4			800-525-7048	
15.6	13.8	19.6	18.3	2222	Low	7	41	23	23	Security Capital Realty (11)	Average	IV 98	19.3	III 98	-11.6			800-525-7048	
13.3	11.4	NA	NA	2222	Low	2	55	30	22	FHLMC (5)	Low	IV 98	14.8	III 98	-14.4			800-525-7048	
18.2	17.2	NA	NA	2222	Low	13	5	28	17	FHLMC (6)	Low	II 95	14.3	III 98	-13.1			800-525-7048	
19.2	17.2	16.2	14.3	2222	Low	15	14	24	23	EXEL Cl. A (6)	Low	II 97	13.5	III 98	-13.6			800-525-7048	
17.3	14.5	16.8	13.9	2222	Average	3	0	35	30	Tyco Intl. (2)	Average	IV 98	18.3	III 98	-10.8			800-525-7048	
NA	NA	NA	NA	2222	Average	4	1	32	12	Microsoft (4)			NA		NA			800-332-3863	
13.4	9.6	NA	NA	2222	High	6	5	30	20	MCI WorldCom (1)	Low	IV 98	15.2	III 98	-8.1			800-647-1568	
22.9	19.9	22.4	20.2	2222	Low	11	5	21	21	Ambac Financial Group (2)	Low	II 97	16.5	III 98	-15.8			800-647-1568	
8.7	6.9	NA	NA	2222	Average	3	75	30	13	AirTouch Communications (3)	Average	IV 98	19.4	III 98	-19.4			800-647-1568	
16.1	13.3	16.9	14.7	2222	Average	6	3	43	34	Dell Computer (3)	High	IV 98	30.6	III 98	-13.7			800-647-1568	
19.3	16.5	15.1	13.4	2222	Average	8	3	30	27	United Technologies (2)	Average	IV 98	20.9	III 98	-14.0			800-647-1568	
21.6	20.2	NA	NA	2222	Low	0	2	33	26	Microsoft (3)	Average	IV 98	20.8	III 98	-10.3			800-647-1568	
24.9	24.3	NA	NA	2222	Very low	1	6	31	27	American Power Conversion (9)	Average	IV 98	27.8	III 98	-12.6			800-421-4004	
10.6	8.5	12.6	10.7	2222	Average	7	NA	34	15	Intel (9)	Very high	IV 98	44.6	III 98	-24.3			800-999-3505	
17.9	15.7	14.2	11.8	2222	Very low	15	NA	37	30	AirTouch Communications (5)	Very low	IV 98	14.2	I 94	-3.7			800-767-1729	
NA	NA	NA	NA	2222		6	NA	28	18	S&P 500 Dep. Rec. (46)			NA		NA			800-572-9336	
16.4	15.8	NA	NA	2222	High	17	2	41	24	Medicis Pharm. Cl. A (3)	Very high	III 94	21.8	I 97	-20.5			800-433-0051	
11.0	11.0	18.8	16.0	2222	Average	7	5	47	23	Citrix Systems (4)	Very high	IV 98	27.5	III 98	-26.2			800-433-0051	
NA	NA	NA	NA	2222	High	18	NA	53	22	BMC Software (7)			NA		NA			800-433-0051	
NA	NA	NA	NA	2222	Average	6	3	47	44	J.D. Edwards (7)			NA		NA			800-433-0051	
NA	NA	NA	NA	2222	Very high	9	2	51	39	Compuware (8)			NA		NA			800-433-0051	
23.7	22.1	NA	NA	2222	Very low	0	2	33	37	Microsoft (3)	Low	IV 98	21.1	III 98	-10.0			800-688-3350	
17.3	14.9	NA	NA	2222	Low	2	2	27	19	Norwest (3)	Average	IV 98	15.8	III 98	-9.7			800-688-3350	
14.0	12.1	NA	NA	2222	Low	3	NA	23	25	Charter One Financial (3)	Average	IV 98	22.6	III 98	-20.7			800-688-3350	
11.6	7.8	11.8	8.8	2222	Low	6	3	19	35	Ash Grove Cement (2)	Low	III 97	12.7	III 98	-14.9			800-221-4268	
20.2	15.9	16.2	12.9	2222	Very high	7	NA	43	25	Cendant (7)	High	IV 98	40.2	III 98	-19.6			800-243-4361	
12.4	9.2	13.1	10.3	2222	Very high	2	2	42	15	IBM (2)	Low	IV 98	13.5	III 98	-5.5			800-243-4361	
19.3	15.5	16.4	13.3	2222	Very high	1	1	41	24	IBM (4)	Average	IV 98	22.3	III 98	-8.8			800-243-4361	
11.1	7.7	12.3	9.3	2222	High	2	4	27	7	Microsoft (1)	Very low	IV 98	9.7	III 98	-6.0			800-243-4361	
13.1	9.2	NA	NA	2222	High	20	NA	41	14	Outdoor Systems (4)	High	IV 98	28.4	III 98	-16.1			800-243-4361	
12.8	9.4	13.5	10.2	2222	Very high	7	2	42	17	IBM (3)	Low	IV 98	15.9	III 98	-5.7			800-243-4361	
18.9	17.1	17.0	15.9	2222	Average	2	NA	44	68	Cendant (7)	High	IV 98	34.6	III 98	-14.6			800-243-4361	
21.4	20.6	NA	NA	2222	Average	3	NA	40	56	MCI WorldCom (5)	Average	IV 98	30.7	III 98	-12.1			800-243-4361	
NA	NA	NA	NA	2222	Low	8	NA	18	21	Charter One Financial (5)			NA		NA			800-334-3444	
19.9	16.1	15.8	13.0	2222	Average	4	3	31	33	Schering-Plough (3)	Low	IV 98	18.9	III 98	-11.1			800-334-3444	
20.3	16.4	18.7	15.5	2222	High	6	NA	43	33	HBO (4)	Average	IV 98	25.1	III 98	-12.6			800-426-0107	
NA	NA	NA	NA	2222	High	10	5	53	53	America Online (9)			NA		NA			800-426-0107	
17.5	15.9	NA	NA	2222	Average	8	NA	20	14	Atlantic Coast Airlines (3)	High	III 97	21.6	III 98	-20.7			800-927-4648	
7.7	4.1	17.8	14.7	2222	Average	16	1	28	10	Veritas DGC (6)	Very high	IV 98	24.6	III 98	-25.8			800-426-0107	
17.6	13.9	13.9	11.2	2222	Very high	3	2	28	-15	Philip Morris (4)	Average	IV 98	18.4	III 98	-16.8			800-426-0107	
24.9	19.2	NA	NA	2222	Low	78	NA	NA	-6	NA	Low	IV 98	21.5	III 98	-9.8			800-927-4648	
17.2	13.3	NA	NA	2222	Very high	7	NA	39	19	Provident Financial (5)	High	IV 98	21.0	III 98	-13.3			800-426-0107	
21.9	19.4	16.9	14.1	2222	Very low	0	7	30	54	Schering-Plough (6)	Low	IV 98	22.3	III 98	-8.5			800-225-6292	
8.1	5.5	9.6	6.9	2222	High	4	1	32	3	Conseco (4)	Very low	III 97	8.6	III 98	-6.9			800-225-6292	
13.4	11.2	NA	NA	2222	Average	9	5	28	4	NCR (3)	Average	IV 98	11.7	III 98	-21.4			800-225-6292	
18.4	16.7	NA	NA	2222	Low	1	NA	26	35	Schering-Plough (6)	Low	IV 98	14.4	III 98	-6.6			800-225-6292	
19.1	17.0	NA	NA	2222	Low	5	97	27	23	Raisio Group (3)	Average	I 98	24.3	III 98	-19.9			800-225-6292	
25.3	20.9	21.0	18.0	2222	Low	10	1	40	25	Monsanto (7)	Average	II 97	24.1	I 94	-12.8			800-225-6292	
11.7	8.8	11.8	8.9	2222	Average	8	10	21	21	Ambac Financial Group (5)	Average	II 97	15.5	III 98	-22.3			800-225-6292	
2.3	0.2	NA	NA	2222	High	3	98	21	-33	Telecom Italia (2)	High	IV 98	18.9	III 98	-22.4			800-225-6292	
8.5	5.6	11.7	8.9	2222	Average	8	4	37	21	Wind River Systems (3)	High	IV 98	20.1	III 98	-21.8			800-225-6292	
18.0	15.3	NA	NA	2222	Low	41	3	32	26	General Electric (1)	Very low	IV 98	16.0	I 94	-4.6			800-662-4769	
22.0	18.6	NA	NA	2222	Average	3	3	41	35	MCI WorldCom (4)	High	IV 98	28.8	III 98	-12.4			800-662-4769	
9.5	8.2	NA	NA	2222	Very low	11	97	26	18	British Telecomm. (4)	Average	I 98	16.0	III 98	-16.1			800-662-4769	
20.5	19.4	NA	NA	2222	Very low	10	12	27	51	Citigroup (7)	Low	IV 98	17.2	III 98	-15.8			800-662-4769	
14.1	12.6	14.0	11.9	2222	Very low	2	20	31	30	General Electric (1)	Very low	IV 98	12.2	III 98	-6.5			800-638-5660	
23.9	23.4	NA	NA	2222	Low	5	4	34	28	MCI WorldCom (2)	Low	IV 98	24.7	III 98	-12.1			800-638-5660	
12.8	9.5	12.9	9.8	2222	Average	10	9	23	7	Amerada Hess (5)	Very low	II 97	8.3	III 98	-3.0			800-638-5660	
20.5	18.5	NA	NA	2222	Low	9	10	25	17	Mobii (2)	Very low	IV 98	13.1	III 98	-7.1			800-638-5660	

DATA: MORNINGSTAR, INC., CHICAGO, IL

MUTUAL FUND SCOREBOARD

FUND	OVERALL RATING	CATEGORY	RATING	SIZE	FEES	1996 RET.		
FUND RANKING BY CATEGORY		FUND RANKING BY CATEGORY		ASSETS (\$ MIL.)	EXPENSE RATIO (%)	1996 RET. (%)		
T. ROWE PRICE EQUITY INDEX	A	Large-cap Blend	B+	2627.5	75	0.50	26.3	
T. ROWE PRICE EQUITY INCOME	A	Large-cap Value	A	2426.6	6	No load	8.1	
T. ROWE PRICE EUROPEAN STOCK	B+	Europe	B+	2426.6	10	No load	25.6	
T. ROWE PRICE FINANCIAL SVCS.		Financial		2124.0	26	No load	26.6	
T. ROWE PRICE GROWTH & INCOME	B+	Large-cap Blend	B	2626.2	6	No load	0.75	27.4
T. ROWE PRICE GROWTH STOCK	B+	Large-cap Blend	B	2026.5	26	No load	0.75	27.4
T. ROWE PRICE HEALTH SCIENCE		Health		2126.6	7	No load	1.6	22.4
T. ROWE PRICE INTL. STOCK	C-	Foreign	C	2124.0	4	No load	0.25	18.7
T. ROWE PRICE MEDIA & TELECOMMUNICATIONS	C	Communications	C-	2426.0	26	No load	0.01	26.0
T. ROWE PRICE MID-CAP GROWTH	C	Mid-cap Growth	A	2026.0	20	No load	0.25	22.0
T. ROWE PRICE MID-CAP VALUE		Mid-cap Value		2126.0	1	No load	0.25	1.4
T. ROWE PRICE NEW AMERICA GROWTH	C	Mid-cap Growth	B+	2026.5	1	No load	0.25	7.9
T. ROWE PRICE NEW ASIA	F	Pacific Asia ex Japan	C	2026.0	20	No load	0.0	-18.8
T. ROWE PRICE NEW ERA	C-	Natural Resources	B+	2226.6	20	No load	0.24	-5.6
T. ROWE PRICE NEW HORIZONS	C-	Mid-cap Growth	C	2126.5	1	No load	0.25	9.5
T. ROWE PRICE PERSONAL STRATEGY BALANCED		Domestic Mixed		2126.4	50	No load	0.25	10.9
T. ROWE PRICE PERSONAL STRATEGY INCOME		Domestic Mixed		2126.0	1	No load	0.25	10.5
T. ROWE PRICE SCIENCE & TECHNOLOGY	C-	Technology	C	2226.6	20	No load	0.24	42.4
T. ROWE PRICE SMALL CAP STOCK	C	Small-cap Blend	B+	2126.6	4	No load	1.02	-1.5
T. ROWE PRICE SMALL-CAP VALUE	C	Small-cap Value	B	2126.5	20	No load	0.25	-12.5
T. ROWE PRICE SPECTRUM GROWTH	B	Mid-cap Blend	B	2126.0	6	No load	0.20	0.6
T. ROWE PRICE VALUE		Mid-cap Value		2126.5	40	No load	0.25	6.6
PRINCIPAL CAPITAL VALUE A	B	Large-cap Value	C	2626.0	1	4.75	0.20	12.4
PRINCIPAL GROWTH A	B	Large-cap Blend	C-	2626.0	1	4.75	0.20	20.4
PRINCIPAL INTERNATIONAL A	C-	Foreign	C	2026.6	6	4.75	0.25	25.5
PRINCIPAL MIDCAP A	C	Mid-cap Blend	C	2026.6	6	4.75	0.25	-10.1
PROFUNDUS ULTRAOTC INVESTOR		Large-cap Growth		2126.0	NM	No load	0.0	25.0
PRUDENTIAL BALANCED B	C	Domestic Mixed	F	2026.0	1	5.00	0.24	7.4
PRUDENTIAL EQUITY B	C	Large-cap Value	C-	2026.0	4	5.00	0.20	7.6
PRUDENTIAL EQUITY INCOME B	C	Mid-cap Value	C-	2026.0	4	5.00	0.25	-10.6
PRUDENTIAL JENN. GROWTH B		Large-cap Blend		2026.0	1	5.00	0.24	26.7
PRUDENTIAL SMALL CO. VALUE B	C-	Small-cap Value	C-	2026.0	1	5.00	0.25	-6.6
PRUDENTIAL UTILITY A	C	Utilities	C-	2126.6	6	5.00	0.20	50.0
PRUDENTIAL WORLD GLOBAL B	C-	World	C	2026.0	4	5.00	0.20	22.5
PUTNAM ASSET ALLOCATION BAL. A		Domestic Mixed		2426.6	20	5.75	0.20	1.1
PUTNAM ASSET ALLOCATION/CONS. A		Domestic Mixed		2026.6	17	5.75	0.25	8.9
PUTNAM ASSET ALLOCATION/GROWTH A		Large-cap Blend		2126.0	26	5.75	0.25	10.0
PUTNAM BALANCED RETIREMENT A	B+	Domestic Mixed	B	2026.0	0	5.75	0.20	20.2
PUTNAM CAPITAL APPRECIATION B		Mid-cap Blend		2126.0	4	5.00	0.24	7.6
PUTNAM DIVERSIFIED EQUITY B		Midcap		2026.0	4	5.00	1.00	17.0
PUTNAM EQUITY INCOME A	B+	Large-cap Value	B	2126.0	24	5.75	0.25	1.7
PUTNAM EUROPE GROWTH A	B	Europe	C	2026.0	26	5.75	0.20	20.6
PUTNAM FUND FOR GROWTH & INCOME A	B	Large-cap Value	C	2026.0	1	5.75	0.25	10.0
GEORGE PUTNAM OF BOSTON A	B+	Domestic Mixed	B	2126.0	1	5.75	0.20	10.9
PUTNAM GLOBAL GROWTH A	C	World	B	2026.0	6	5.75	0.24	25.6
PUTNAM GROWTH & INCOME II B		Large-cap Value		2026.6	6	5.00	1.05	17.6
PUTNAM GROWTH OPPORTUNITIES B		Large-cap Growth		2026.0	20	5.00	1.00	45.0
PUTNAM HEALTH SCIENCES A	B+	Health	B	2026.6	4	5.75	0.20	17.0
PUTNAM INTL. GROWTH & INCOME A		Foreign		2026.6	20	5.75	0.25	8.6
PUTNAM INTL. GROWTH A	C	Foreign	B+	2026.6	20	5.75	0.25	16.0
PUTNAM INTL. NEW OPPORTUNITIES B		Foreign		2126.0	1	5.00	1.00	1.0
PUTNAM INVESTORS A	B	Large	B	2026.0	20	5.75	0.25	20.0
PUTNAM NEW OPPORTUNITIES A	C-	Mid-Cap	C	2026.0	1	5.75	0.25	24.6
PUTNAM NEW VALUE B		Large-cap Value		2126.0	1	5.00	0.20	6.7
PUTNAM OTC & EMERGING GROWTH A	D	Mid-cap Growth	D	2126.6	1	5.75	0.20	1.0
PUTNAM UTIL. GROWTH & INCOME A	B+	Utilities	B	2026.6	6	5.75	0.25	4.9
PUTNAM VISTA A	C-	Mid-cap Growth	B	2026.0	1	5.75	0.25	10.0
PUTNAM VOYAGER A	C	Large-cap Growth	C-	2026.0	6	5.75	0.25	24.0
PUTNAM VOYAGER II A	C-	Mid-cap Growth	B	2026.0	24	5.75	0.20	20.0
RAINIER CORE EQUITY		Large-cap Blend		2026.0	6	No load	0.24	20.7
RAINIER SMALL MID-CAP EQUITY		Mid-Cap Blend		2126.4	24	No load	0.25	1.0
RIGHTTIME BLUE CHIP	A	Large-cap Blend	A	2026.6	1	4.75	0.25	20.6
ROBERTSON STEPHENS EMERGING GROWTH A	D	Small-cap Growth	B	2026.0	26	No load	0.20	20.0
ROBERTSON STEPHENS VALUE & GROWTH A	C-	Large-cap Growth	F	2126.0	1	No load	0.25	17.4
RODNEY SQUARE LG. CAP. GRTN. EQ.	C	Mid-cap Growth	B+	2126.0	11	4.20	0.20	22.5
ROYCE PREMIER	B	Small-cap Value	B+	2026.0	4	0.20	0.24	5.7
ROYCE TOTAL RETURN	A	Small-cap Value	A	2026.0	26	0.20	0.25	4.5
RYDEX MONIA INVESTOR	C	Large-cap Blend	D	2026.0	1	No load	0.20	20.0
RYDEX OTC INVESTOR		Large-cap Growth		2026.0	40	No load	0.20	20.0
RYDEX VISA INVESTOR		Large-cap Blend		2026.0	1	No load	0.24	10.0

I. TOTAL RETURNS (%) HISTORY PORTFOLIO DATA										RISK				TELEPHONE		
5 YEARS TAX ADJUSTED		10 YEARS PRETAX ADJUSTED		RESULTS VS. ALL FUNDS	TURNOVER	CASH %	FOREIGN %	P-E RATIO	UNTAXED GAINS (%)	LARGEST HOLDING COMPANY (% ASSETS)	LEVEL	BEST QTR %RET		WORST QTR %RET		
17	22.5	NA	NA	3111	Very low	0	2	33	36	Microsoft (3)	Low	IV 98	21.3	III 98	-10.0	800-638-5660
18	16.1	15.2	12.7	33112	Low	5	5	24	24	Amoco (2)	Very low	II 97	11.4	III 98	-7.5	800-638-5660
16	17.2	NA	NA	3222	Low	4	100	29	29	Wolters Kluwer (3)	Low	I 98	17.9	III 98	-14.0	800-638-5660
14	NA	NA	NA		Average	8	10	19	19	First Union (4)			NA		NA	800-638-5660
4	15.2	15.0	12.9	32222	Very low	5	4	27	33	Pfizer (2)	Low	II 97	12.9	III 98	-9.6	800-638-5660
0	18.0	17.7	15.0	22221	Low	6	17	33	44	FHLMC (3)	Low	IV 98	23.1	III 98	-11.4	800-638-5660
19	NA	NA	NA	2	High	9	9	44	22	Eli Lilly (5)			NA		NA	800-638-5660
9	7.6	10.5	8.9	4243	Very low	3	100	29	25	Wolters Kluwer (3)	Average	IV 98	18.3	III 98	-13.7	800-638-5660
1	18.2	NA	NA	111	Low	10	8	43	41	MCI WorldCom (3)	High	IV 98	34.0	III 98	-18.6	800-638-5660
6	19.7	NA	NA	112	Low	11	5	34	27	U.S. Foodservice (2)	Average	IV 98	26.8	III 98	-17.5	800-638-5660
10	NA	NA	NA	2	Very low	6	7	22	10	Valassis Communications (2)			NA		NA	800-638-5660
0	16.2	19.2	17.9	11112	Low	5	1	33	43	Waste Management (3)	High	IV 98	27.7	III 98	-21.3	800-638-5660
9	-12.7	NA	NA	1144	Low	15	100	20	-64	Hutchison Whampoa (10)	Very high	IV 98	18.4	IV 97	-27.1	800-638-5660
6	6.9	9.2	6.7	3424	Low	4	23	27	14	Mobil (6)	High	III 97	11.3	III 98	-12.4	800-638-5660
3	13.8	17.4	14.6	21114	Average	4	3	36	33	Paychex (2)	High	IV 98	24.6	III 98	-21.0	800-638-5660
18	NA	NA	NA	2	Low	5	26	27	13	Philip Morris (1)			NA		NA	800-638-5660
14	NA	NA	NA	3	Low	11	22	28	5	S&P 500 Dep. Rec. (1)			NA		NA	800-638-5660
4	21.7	25.6	22.8	11112	High	3	3	45	38	EMC/Mass. (4)	High	IV 98	47.9	III 98	-17.3	800-638-5660
1	12.4	13.6	10.7	41113	Low	12	4	24	13	U.S. Foodservice (2)	Average	II 97	15.5	III 98	-19.4	800-638-5660
2	10.3	14.1	12.2	31124	Very low	4	1	19	16	Poe & Brown (2)	Average	III 97	14.9	III 98	-20.2	800-638-5660
2	13.7	NA	NA	2222	Low	4	5	31	21	T. Rowe Price International (22)	Low	IV 98	18.6	III 98	-13.4	800-638-5660
4	NA	NA	NA	2	Average	3	11	24	6	Amoco (2)			NA		NA	800-638-5660
7	15.8	14.5	12.0	33322	Low	6	NA	25	30	First Union (5)	Low	II 97	13.3	III 98	-10.4	800-451-5447
0	18.2	17.8	16.6	13211	Very low	8	5	31	50	Microsoft (3)	Average	IV 98	19.1	III 98	-15.6	800-451-5447
8	8.4	10.9	9.8	41143	Low	4	98	20	18	Nokia Cl. A ADR (3)	Average	IV 98	15.5	III 98	-17.8	800-451-5447
1	14.5	16.2	15.5	21113	Very low	7	3	29	34	EVI Weatherford (3)	Average	IV 98	17.0	III 98	-21.2	800-451-5447
7	NA	NA	NA		2	NA	NA	32		Nasdaq 100 (Fut.) (97)			NA		NA	888-776-3637
7	7.1	10.8	8.3	33343	High	0	4	27	8	Duke Energy (1)	Low	II 97	10.9	III 98	-8.6	800-225-1852
5	13.2	15.9	13.6	13322	Very low	9	9	24	32	Chubb (3)	Low	IV 98	14.0	III 98	-15.5	800-225-1852
6	11.2	13.4	11.3	32332	Low	2	11	17	17	Lehman Brothers Holdings (5)	Average	II 97	16.3	III 98	-18.5	800-225-1852
1	NA	NA	NA	1	Average	3	5	42	32	MCI WorldCom (4)			NA		NA	800-225-1852
3	8.2	13.4	11.0	31133	Average	6	1	16	-2	Financial Security Assurance (3)	Average	III 97	15.8	III 98	-23.3	800-225-1852
3	11.5	NA	NA	242	Very low	4	23	22	34	Williams (4)	Low	IV 96	12.4	I 94	-4.8	800-225-1852
3	8.5	9.1	8.1	4243	Average	9	55	30	35	Credito Italiano (3)	High	IV 98	21.5	III 98	-14.9	800-225-1852
1	NA	NA	NA	3	High	0	22	30	13	U.S. Treasury (Fut.) (7)			NA		NA	800-225-1581
1	NA	NA	NA	3	Very high	1	22	30	8	U.S. Treasury (Fut.) (10)			NA		NA	800-225-1581
1	NA	NA	NA	2	High	0	18	33	16	General Electric (1)			NA		NA	800-225-1581
0	10.3	12.7	9.8	33333	High	6	4	26	10	Exxon (1)	Very low	II 97	8.6	III 98	-5.5	800-225-1581
1	NA	NA	NA	2	Low	6	8	30	15	General Electric (3)			NA		NA	800-225-1581
1	NA	NA	NA	2	High	1	53	32	20	Schering-Plough (2)			NA		NA	800-225-1581
7	17.1	14.4	12.1	31112	Average	4	4	26	13	DuPont (2)	Low	IV 98	13.9	III 98	-9.6	800-225-1581
0	17.4	NA	NA	221	Average	2	99	23	12	Nestle (3)	Average	I 98	20.0	III 98	-18.3	800-225-1581
9	16.0	16.2	13.2	23112	Average	1	1	27	19	General Electric (3)	Low	IV 98	16.7	III 98	-10.1	800-225-1581
1	12.2	13.8	10.7	24222	High	4	4	24	11	Citicorp (1)	Very low	II 97	9.6	III 98	-6.1	800-225-1581
2	11.8	13.1	11.3	3242	High	2	51	42	19	Microsoft (2)	Average	IV 98	21.9	III 98	-12.3	800-225-1581
4	NA	NA	NA	2	Average	2	3	27	11	Xerox (3)			NA		NA	800-225-1581
1	NA	NA	NA		Average	2	NA	44	13	Warner-Lambert (5)			NA		NA	800-225-1581
2	24.5	21.5	19.5	14111	Low	3	11	46	34	Pfizer (5)	Average	II 97	20.3	III 98	-6.4	800-225-1581
1	NA	NA	NA		Average	3	95	21	7	Generale des Eaux Minls. Vit. (3)			NA		NA	800-225-1581
2	12.3	NA	NA	242	Average	7	96	23	10	ING Groep (3)	Average	IV 98	22.5	III 98	-19.1	800-225-1581
1	NA	NA	NA	4	High	2	99	39	16	Equant (3)			NA		NA	800-225-1581
1	20.9	20.2	16.5	13111	Average	5	1	39	31	Tyco Intl. (3)	Average	IV 98	25.3	III 98	-12.0	800-225-1581
1	20.2	NA	NA	1112	Average	3	4	42	42	America Online (3)	High	IV 98	29.4	III 98	-18.9	800-225-1581
3	NA	NA	NA	3	High	2	3	27	13	Philip Morris (3)			NA		NA	800-225-1581
3	13.3	17.4	15.2	21114	High	5	3	40	24	Compuware (6)	Very high	IV 98	29.6	III 98	-26.6	800-225-1581
5	13.1	NA	NA	332	Average	1	10	23	28	Duke Energy (4)	Very low	IV 97	12.2	I 94	-6.9	800-225-1581
3	17.4	18.4	15.4	23112	High	2	1	36	27	Costco (2)	High	IV 98	23.8	III 98	-17.4	800-225-1581
9	18.1	20.3	18.1	11112	Average	3	7	38	37	Tele-Comm.-TCI Ventures Cl. A (2)	High	IV 98	26.7	III 98	-16.2	800-225-1581
9	19.1	NA	NA	112	Average	3	9	41	32	CBS (2)	High	IV 98	28.4	III 98	-17.7	800-225-1581
1	NA	NA	NA	1	High	1	3	31	15	Microsoft (4)			NA		NA	800-248-6314
1	NA	NA	NA	2	High	2	2	25	5	New Century Energies (2)			NA		NA	800-248-6314
1	12.4	13.0	10.8	24222	Low	100	3	33	42	S&P 500 (Fut.) (13)	Very low	IV 98	15.6	II 97	-1.9	800-242-1421
1	14.8	20.2	17.0	13112	Very high	8	7	35	22	ECsoft Group ADR (3)	High	IV 98	38.4	III 98	-23.4	800-766-3863
1	21.5	NA	NA	111	Very high	0	NA	41	35	Merrill Lynch (4)	High	IV 98	24.1	IV 95	-14.7	800-766-3863
2	16.9	17.7	15.3	2221	Low	1	NA	38	27	Merck (3)	Average	IV 98	25.3	III 98	-12.4	800-336-9970
1	11.2	NA	NA	33	Low	1	2	22	19	National Computer Systems (4)	Low	IV 98	15.1	III 98	-14.5	800-221-4268
1	14.3	NA	NA	13	Low	14	4	18	5	Lincoln Electric Hldgs. (2)	Very low	II 97	9.9	III 98	-10.5	800-221-4268
1	27.3	NA	NA	11	Very low	0	1	33	15	S&P 500 Index (Call) @550 (37)	High	IV 98	31.7	III 98	-16.9	800-820-0888
1	NA	NA	NA	1	Very high	0	1	50	40	Microsoft (24)			NA		NA	800-820-0888
1	NA	NA	NA	4	Very low	0	NA	NA	-58	NA			NA		NA	800-820-0888

DATA: MORN. STAR, INC., CHICAGO, IL.

MUTUAL FUND SCOREBOARD

FUND	OVERALL RATING (COMPARES RISK-ADJUSTED PERFORMANCE OF EACH FUND AGAINST ALL FUNDS)	CATEGORY	RATING (COMPARES RISK-ADJUSTED PERFORMANCE OF FUND WITHIN CATEGORY)	SIZE ASSETS \$MIL	% CHG. 1997-98	FEES SALES CHARGE (%)	EXPENSE RATIO (%)	1998 RE- TURN PRE- TAX
SAFECO EQUITY NO LOAD	A	Large-cap Blend	B+	2024.9	37	No load	0.73	24.9
SAFECO GROWTH NO LOAD	C-	Small-cap Blend	B	1394.2	118	No load	0.85	4.4
SAFECO INCOME NO LOAD	B	Large-cap Value	C	373.4	-7	No load	0.85	6.3
SALOMON BROS. INVESTORS O	B+	Large-cap Value	B	650.9	7	No load	0.69	15.4
SALOMON BROS. OPPORTUNITY	B	Large-cap Value	C-	202.3	0	No load	1.12	4.9
SCHWAB INTERNATIONAL INDEX INV.	C-	Foreign	B+	469.0	44	0.75*	0.61	15.9
SCHWAB MARKETTRACK BALANCED (ffff)		Domestic Hybrid		297.7	84	No load	0.78	13.7
SCHWAB MARKETTRACK GROWTH (gggg)		Large-cap Blend		311.4	69	No load	0.75	15.2
SCHWAB 1000 INVESTOR	B+	Large-cap Blend	B	3820.4	35	0.50*	0.47	27.2
SCHWAB S&P 500 INVESTOR		Large-cap Blend		2145.1	108	No load	0.38	28.1
SCHWAB SMALL CAP INDEX INVESTOR	C-	Small-cap Blend	C	548.5	28	0.50*	0.52	-3.6
SCUDDER BALANCED	B+	Domestic Hybrid	C	262.0	66	No load	1.02	21.1
SCUDDER DEVELOPMENT	D	Small-cap Growth	C-	782.9	-9	No load	1.41	8.0
SCUDDER GLOBAL	C	World	B	1613.9	3	No load	1.34	12.6
SCUDDER GREATER EUROPE GROWTH		Europe		1268.0	455	No load	1.66	29.2
SCUDDER GROWTH & INCOME	B	Large-cap Value	C	7633.9	12	No load	0.76	6.1
SCUDDER INTERNATIONAL	C-	Foreign	B+	2945.1	13	No load	1.18	18.6
SCUDDER LARGE COMPANY GROWTH	B	Large-cap Growth	B	626.9	104	No load	1.21	33.2
SCUDDER LARGE COMPANY VALUE	C	Large-cap Value	D	2355.5	6	No load	0.93	9.5
SCUDDER LATIN AMERICA	F	Latin America	B	462.3	-52	No load	1.89	-29.7
SCUDDER PATHWAY BALANCED		Domestic Hybrid		242.9	17	No load	NA	7.6
SCUDDER SMALL COMPANY VALUE		Small-cap Value		279.0	32	1.00*	1.50	-5.5
SECURITY EQUITY A	B+	Large-cap Blend	B	942.4	25	5.75	1.03	26.5
SEI INDEX S&P 500 INDEX E	A	Large-cap Blend	B+	1449.2	29	No load	0.25	28.3
SEI INSTITUTIONAL LARGE CAP GROWTH A		Large-cap Growth		1890.4	106	No load	0.85	38.8
SEI INSTITUTIONAL LARGE CAP VALUE A	B+	Large-cap Value	B	1749.4	82	No load	0.85	11.4
SEI INSTITUTIONAL SMALL CAP GROWTH A	D	Small-cap Growth	C-	723.9	38	No load	1.10	5.6
SEI INSTITUTIONAL SMALL CAP VALUE A		Small-cap Value		511.8	44	No load	1.11	-2.8
SELECTED AMERICAN	B	Large-cap Value	C	2905.1	31	No load	0.96	16.3
SELIGMAN CAPITAL A	C-	Mid-cap Growth	C	271.8	-4	4.75	1.05	19.1
SELIGMAN COMMON STOCK A	C	Large-cap Blend	C-	740.4	1	4.75	1.13	17.4
SELIGMAN COMMUNICATIONS & INFO. A	D	Technology	D	3362.2	8	4.75	1.53	33.9
SELIGMAN FRONTIER A	D	Small-cap Growth	B	411.3	-25	4.75	1.52	-2.2
SELIGMAN GROWTH A	C	Large-cap Growth	C	868.9	19	4.75	1.16	35.2
SELIGMAN HENDERSON GLOBAL SMALL B		World		369.0	55	5.00**	2.43	4.9
SELIGMAN HENDERSON GLOBAL TECHNOLOGY A		Technology		512.0	-5	4.75	1.67	30.7
SELIGMAN INCOME A	B	Domestic Hybrid	C	256.7	-5	4.75	1.14	7.3
SENTINEL BALANCED A	B	Domestic Hybrid	C	336.4	5	5.00	1.16	11.9
SENTINEL COMMON STOCK A	B	Large-cap Value	C	1637.3	7	5.00	1.04	14.0
SEQUIA	A	Large-cap Value	A	4806.3	31	No load	1.00	35.3
SIFE TRUST A-I	B	Financial	C-	975.9	-7	5.00	1.25	5.0
SIT MID CAP GROWTH	C-	Mid-cap Growth	C	363.9	-5	No load	1.00	6.8
SKYLINE SPECIAL EQUITIES	C	Small-cap Value	C	445.8	-4	No load	1.48	-7.2
SMALLCAP WORLD	C-	Small-cap Growth	B+	8108.8	-6	5.75	1.06	0.4
SMITH BARNEY AGGR. GROWTH A	C-	Mid-cap Growth	C	418.2	23	5.00	1.21	35.1
SMITH BARNEY APPRECIATION A	B+	Large-cap Blend	C	2853.2	15	5.00	0.95	20.5
SMITH BARNEY BALANCED B (hhhh)	C	Domestic Hybrid	F	659.9	-25	5.00**	1.52	11.4
SMITH BARNEY CONC. ALLOCATION BAL B (iiii)		Domestic Hybrid		239.0	32	5.00**	1.35	8.0
SMITH BARNEY CONC. ALLOCATION GRTH. B (jjjj)		Domestic Hybrid		418.2	31	5.00**	1.35	12.7
SMITH BARNEY CONC. ALLOC. HIGH GR. A (kkkk)		Mid-cap Blend		328.0	34	5.00	0.60	15.5
SMITH BARNEY CONC. ALLOC. SOCIAL A (llll)	B+	Domestic Hybrid	B+	251.9	27	5.00	1.28	27.6
SMITH BARNEY CONTRARIAN B (mmmm)		Mid-cap Value		307.1	-44	5.00**	2.05	-1.8
SMITH BARNEY FUNDAMENTAL VALUE B	C	Large-cap Value	D	782.6	-11	5.00**	1.90	15.0
SMITH BARNEY LARGE CAP. GROWTH B		Large-cap Growth		634.5	235	5.00**	NA	53.7
SMITH BARNEY LARGE CAP. VALUE A (nnnn)	C	Large-cap Value	C-	804.2	14	5.00	0.92	14.6
SMITH BARNEY PREM. TOT. RET. B	B+	Large-cap Value	B+	3178.1	2	5.00**	1.60	5.7
SMITH BARNEY INTL. EQUITY A	D	Foreign	D	421.8	-3	5.00	1.31	11.7
SOGEN INTERNATIONAL A	C	International Hybrid	B	2817.3	-30	3.75	1.19	-0.3
SOGEN OVERSEAS A	C	Foreign	A	679.8	-29	3.75	1.22	2.5
SOUND SHORE	B+	Mid-cap Value	A	1953.1	50	No load	1.08	4.4
SOUTHWEST CORE EQUITY (oooo)	C	Large-cap Value	C-	379.8	9	4.50	0.94	12.6
SPECTRA	C	Large-cap Growth	C	224.2	132	No load	2.12	47.9
SSGA EMERGING MARKETS		Diversified Emerging Mkts.		236.4	-7	No load	1.25	-15.9
SSGA GROWTH & INCOME	A	Large-cap Blend	B+	204.1	154	No load	0.95	34.7
SSGA MATRIX EQUITY	B	Large-cap Blend	C	566.5	20	No load	0.69	21.7
SSGA S&P 500 INDEX	A	Large-cap Blend	B+	2250.1	55	No load	0.17	28.4
SSGA SMALL CAP	C-	Small-cap Blend	B	453.3	61	No load	1.04	-7.6
STAGECOACH ASSET ALLOCATION A	B+	Domestic Hybrid	B	1377.4	15	4.50	0.95	25.6
STAGECOACH EQUITY INDEX A	B+	Large-cap Blend	B+	607.3	18	No load	0.89	27.7
STAGECOACH GROWTH A	C	Large-cap Blend	C-	348.7	-2	5.25	1.12	29.2

*Includes redemption fee. **Includes deferred sales charge. †12(b)-1 plan in effect. ‡Not currently accepting new accounts. \$Less than 0.5% of assets. NA=Not available. (ffff) Formerly Schwab Asset Director-Balanced Growth. (gggg) Formerly Schwab Asset Director-High Growth. (hhhh) Formerly Smith Barney Utilities B. (iiii) Formerly Smith Barney B. (jjjj) Formerly Smith Barney Concert Growth B. (kkkk) Formerly Smith Barney Concert High Growth A. (llll) Formerly Smith Barney Concert Social Aware A. (mmmm) Formerly Smith Barney Managed Growth B. (nnnn) Formerly Smith Barney Equity Income A. (oooo) Formerly SouthTrust Vulcan Stock.

Equity Funds

AL TOTAL RETURNS (%) HISTORY										PORTFOLIO DATA				RISK				TELEPHONE	
5 YEARS		10 YEARS		RESULTS VS. ALL FUNDS	TURNOVER	CASH %	FOREIGN %	P-E RATIO	UNTAXED GAINS (%)	LARGEST HOLDING COMPANY (% ASSETS)	LEVEL	BEST		WORST					
PRETAX	AFTERTAX	PRETAX	AFTERTAX									QTR	%RET	QTR	%RET				
1.7	18.8	19.8	16.9	2111	Low	2	2	29	31	Chase Manhattan (3)	Low	IV 98	18.7	III 98	-7.8			800-426-6730	
9.0	14.1	16.6	12.9	2321	Average	1	3	26	10	Green Tree Financial (8)	High	IV 98	19.5	III 98	-25.4			800-426-6730	
3.5	13.4	13.5	10.9	4322	Average	2	2	27	25	CCA Prison Realty Trust (5)	Low	IV 98	14.6	III 98	-17.5			800-426-6730	
3.6	16.8	16.6	12.7	3211	Average	8	12	25	36	Viacom Cl. B (3)	Low	IV 98	17.4	III 98	-12.4			800-725-6666	
7.8	16.0	14.5	12.8	4222	Very low	19	12	20	63	Bank of New York (13)	Average	II 97	16.1	III 98	-14.7			800-725-6666	
1.0	9.6	NA	NA	43	Very low	3	100	29	21	Royal Dutch Petroleum (2)	Average	IV 98	19.2	III 98	-14.9			800-435-4000	
NA	NA	NA	NA	3	High	4	19	30	13	Schwab Long-Term Tax-Free (23)								800-435-4000	
NA	NA	NA	NA	2	High	4	22	30	18	Schwab Small Cap Index (20)								800-435-4000	
1.7	22.2	NA	NA	311	Very low	0	0	33	47	General Electric (3)	Average	IV 98	21.9	III 98	-10.7			800-435-4000	
NA	NA	NA	NA	1	Very low	2	2	33	24	General Electric (3)								800-435-4000	
1.6	11.2	NA	NA	22	Low	0	1	24	10	Ocean Energy (New) (\$)	High	II 97	18.1	III 98	-20.9			800-435-4000	
1.4	13.7	NA	NA	22	Low	5	NA	43	23	General Electric (3)	Low	IV 98	14.7	III 98	-6.3			800-225-2470	
1.6	9.9	15.3	12.8	1214	Average	4	1	38	41	Cintas (4)	High	IV 98	24.8	III 98	-19.9			800-225-2470	
1.6	9.5	13.6	11.8	2243	Average	2	67	27	22	USEC (2)	Average	II 97	13.6	III 98	-12.3			800-225-2470	
NA	NA	NA	NA	1	Average	9	99	34	18	Telefonica (2)								800-225-2470	
1.9	15.4	16.4	13.6	2222	Low	3	14	25	22	Ford Motor (3)	Low	II 97	15.3	III 98	-13.4			800-225-2470	
1.8	7.9	10.6	8.8	4243	Average	10	99	32	24	Hoechst (2)	Average	IV 98	14.8	III 98	-14.4			800-225-2470	
3.1	20.2	NA	NA	321	Average	5	NA	43	36	General Electric (5)	Average	IV 98	26.5	III 98	-12.3			800-225-2470	
1.5	12.7	15.4	12.5	3132	Low	3	6	21	29	IBM (4)	Average	IV 98	16.0	III 98	-14.2			800-225-2470	
1.7	-1.5	NA	NA	44	Low	5	99	16	-19	Telefonos de Mexico L ADR (10)	Very high	III 94	26.8	I 95	-23.2			800-225-2470	
NA	NA	NA	NA			3	21	20	NA	Scudder Income (23)								800-225-2470	
NA	NA	NA	NA	2	Low	3	NA	15	11	Black Hills (1)								800-225-2470	
1	19.4	19.2	15.8	1211	Average	13	4	33	44	Microsoft (2)	Low	IV 98	20.9	III 98	-11.2			800-888-2461	
1.8	22.4	19.0	17.5	1311	Very low	1	2	33	49	Microsoft (3)	Low	IV 98	21.3	III 98	-10.0			800-342-5734	
NA	NA	NA	NA	1	Average	3	1	45	34	Dell Computer (5)								800-342-5734	
1.4	17.1	14.4	12.1	3421	Average	6	2	21	15	Dow Chemical (3)	Low	IV 98	16.6	III 98	-13.6			800-342-5734	
1.2	11.2	NA	NA	14	High	5	2	33	8	S&P 500 Index (Fut.) (4)	Very high	IV 98	28.3	III 98	-24.1			800-342-5734	
NA	NA	NA	NA	2	High	8	3	18	8	S&P 500 Index (Fut.) (5)								800-342-5734	
1.8	21.0	18.0	15.2	2421	Low	4	6	26	41	American Express (5)	Average	IV 98	22.2	III 98	-14.8			800-243-1575	
1.8	13.5	18.1	14.8	1212	High	10	NA	33	47	Liz Claiborne (4)	High	IV 98	31.0	III 98	-20.2			800-221-2783	
1	12.7	15.0	11.7	2322	High	3	3	27	31	Raytheon Cl. B (4)	Average	II 97	15.4	III 98	-7.8			800-221-2783	
1.0	26.0	26.1	21.9	2111	High	2	5	42	32	EMC/Mass (7)	Very high	IV 98	45.1	III 98	-16.6			800-221-2783	
1.4	11.4	16.9	14.3	2114	High	7	1	34	13	Total Renal Care Holdings (3)	High	II 97	20.3	III 98	-22.9			800-221-2783	
1.0	15.9	17.4	13.9	1321	Average	5	NA	39	47	Merck (4)	Average	IV 98	24.2	III 98	-9.6			800-221-2783	
1.4	NA	NA	NA	4	Average	2	57	28	1	CMG (3)								800-221-2450	
1.4	NA	NA	NA	1	Average	8	53	40	28	EMC/Mass. (4)								800-221-2450	
1.6	6.1	11.0	8.2	4143	High	1	2	27	8	GTE (1)	Very low	II 95	7.3	I 94	-4.0			800-221-2783	
1.8	10.8	12.3	10.1	3433	Average	2	1	27	28	IBM (2)	Very low	IV 98	9.9	III 98	-5.8			800-282-3863	
1.5	15.5	15.9	13.3	2322	Low	4	1	27	46	IBM (3)	Low	IV 98	16.5	III 98	-11.7			800-282-3863	
1	27.0	21.8	19.8	1211	Very low	18	NA	34	73	Berkshire Hathaway Cl. A (34)	Average	II 97	21.5	III 98	-12.6			800-686-6884	
1.4	19.4	19.2	16.0	4111	Average	12	NA	21	44	Fleet Financial Group (5)	Average	IV 98	19.6	III 98	-18.2			800-524-7433	
1.3	11.5	16.9	14.4	1313	Average	6	10	38	28	Elan ADR (5)	High	II 97	20.3	III 98	-19.1			800-332-5580	
1.0	10.0	18.3	14.9	2133	Average	5	1	18	8	Marquette Med. Sys. Cl. A (2)	Average	II 97	19.3	III 98	-20.5			800-458-5222	
1.9	7.4	NA	NA	124	Low	12	38	27	10	ISS Intl. Service Sys. Cl. B (1)	High	IV 98	17.8	III 98	-19.9			800-421-4120	
1.0	17.5	18.7	17.3	1231	Very low	2	1	38	63	Intel (11)	High	IV 98	37.5	III 98	-12.2			800-451-2010	
1.5	15.3	16.0	13.7	2421	Average	18	3	29	38	Allstate (3)	Low	IV 98	17.9	III 98	-9.5			800-451-2010	
1.9	6.4	11.3	8.2	3343	Average	0	4	32	-26	MCI WorldCom (2)	Low	IV 98	14.4	III 98	-7.9			800-451-2010	
1.4	NA	NA	NA	3	Low	10	3	19	1	Smith Barney Diversified Str. (15)								800-451-2010	
1.4	NA	NA	NA	3	Low	1	6	25	3	Smith Barney Govt. Secs. (11)								800-451-2010	
1.4	NA	NA	NA	3	Low	1	10	27	0	Smith Barney Sm. Cap Blend (15)								800-451-2010	
1.4	14.1	NA	NA	31	Average	0	5	33	35	EMC/Mass. (3)	Very low	IV 98	19.3	III 98	-7.5			800-451-2010	
1.4	NA	NA	NA	4	Low	2	6	25	16	Scholastic (3)								800-451-2010	
1.9	12.5	NA	NA	23	Average	20	4	29	35	Wal-Mart Stores (4)	Average	IV 98	18.2	III 98	-10.1			800-451-2010	
1.4	NA	NA	NA			0	NA	41	NA	Intel (6)								800-451-2010	
1.3	13.9	14.4	11.7	3322	Low	3	4	28	34	American Home Products (4)	Low	II 97	15.3	III 98	-11.8			800-451-2010	
1.7	12.1	14.4	11.6	2332	Low	12	21	22	25	Loews (4)	Very low	II 97	10.2	III 98	-9.9			800-451-2010	
1.9	3.7	11.5	10.9	2134	Low	8	100	32	32	Nokia Cl. A (5)	High	I 98	16.5	III 98	-17.6			800-451-2010	
1.3	5.7	10.5	8.4	3233	Low	14	62	23	1	Budrus (2)	Very low	I 98	7.7	III 98	-11.0			800-334-2143	
1.3	5.8	NA	NA	34	Low	1	96	23	-13	Secom (3)	Low	I 98	11.3	III 98	-13.8			800-334-2143	
1.3	17.6	17.1	14.6	3211	Average	10	6	21	11	First Union (4)	Low	IV 98	16.3	III 98	-14.5			800-551-1980	
1.9	16.6	NA	NA	12	High	4	NA	25	24	Philip Morris (3)	Average	IV 98	23.9	III 98	-17.0			800-239-7470	
1.9	21.6	25.8	20.3	1111	High	10	3	47	28	America Online (4)	High	IV 98	33.7	III 98	-10.7			800-992-3863	
1.4	NA	NA	NA	4	Low	5	98	17	-39	Telefonos de Mexico L ADR (1)								800-647-7327	
1.9	21.6	NA	NA	21	Average	2	NA	35	28	Philip Morris (4)	Average	IV 98	23.8	III 98	-8.1			800-647-7327	
1.9	16.7	NA	NA	21	High	1	NA	28	18	IBM (3)	Average	IV 98	22.4	III 98	-13.9			800-647-7327	
1.9	21.4	NA	NA	11	Low	1	2	33	28	S&P 500 Index (Fut.) (5)	Low	IV 98	21.3	III 98	-10.0			800-647-7327	
1.9	14.1	NA	NA	33	Average	1	NA	23	-5	Brightpoint (2)	High	IV 98	19.7	III 98	-27.2			800-647-7327	
1.9	13.7	14.5	12.7	3331	Average	0	3	32	29	General Electric (2)	Very low	IV 98	16.1	III 98	-5.6			800-222-8222	
1.9	21.5	17.9	17.0	2331	Very low	2	3	32	70	General Electric (3)	Low	IV 98	21.0	III 98	-10.1			800-222-8222	
1.9	16.4	NA	NA	321	High	3	7	35	27	General Electric (5)	Average	IV 98	23.3	III 98	-10.7			800-222-8222	

DATA: MORNINGSTAR, INC., CHICAGO, IL.

MUTUAL FUND SCOREBOARD

FUND	OVERALL RATING (COMPARES RISK-ADJUSTED PERFORMANCE OF EACH FUND AGAINST ALL FUNDS)	CATEGORY	RATING (COMPARES RISK-ADJUSTED PERFORMANCE OF FUND WITHIN CATEGORY)	SIZE ASSETS \$ MIL.	% CHG. 1997-98	FEES SALES CHARGE (%)	EXPENSE RATIO (%)	1998 R PRE- TAX
STAGECOACH LIFEPATH 2040 A		Large-cap Blend		258.1	22	No load	1.20†	25.1
STAR RELATIVE VALUE Y (pppp) Ⓜ		Large-cap Value		399.8	23	No load	NA	18.5
STATE ST. RESEARCH AURORA B		Small-cap Blend		213.3	-30	5.00**‡	2.15†	-15.8
STATE ST. RESEARCH CAPITAL B Ⓜ	D	Mid-cap Growth		380.0	-23	5.00**	1.98†	13.2
STATE ST. RESEARCH INVESTMENT B	B	Large-cap Blend	C	809.2	45	5.00**	1.51†	28.3
STATE ST. RESEARCH MGD. ASSET B	C	Domestic Hybrid	D	358.7	10	5.00**	2.03†	7.5
STEIN ROE BALANCED	B	Domestic Hybrid	C	268.8	-4	No load	1.05	12.2
STEIN ROE CAPITAL OPPORT.	D	Mid-Cap Growth	C-	710.7	-30	No load	1.17	-1.6
STEIN ROE GROWTH & INCOME	A	Large-cap Blend	B+	416.3	22	No load	1.13	19.5
STEIN ROE GROWTH STOCK	B	Large-cap Growth	C	759.9	22	No load†	1.07	25.5
STEIN ROE SPECIAL	C-	Mid-cap Blend	D	861.4	-32	No load	1.13	-11.3
STEIN ROE YOUNG INVESTOR (qqqq)		Large-cap Growth		821.4	54	No load	1.31	17.7
STI CLASSIC CAPITAL GROWTH INVESTOR	B	Large-cap Blend	C	295.8	22	3.75	1.81†	27.3
STRONG AMERICAN UTILITIES	B+	Utilities	B+	245.6	31	No load†	1.10	20.4
STRONG ASSET ALLOCATION	B+	Domestic Hybrid	C	319.7	15	No load	1.10	21.4
STRONG COMMON STOCK	C	Mid-cap Blend	C	1439.9	-8	No load†	1.20	6.6
STRONG DISCOVERY Ⓜ	D	Mid-cap Growth	C-	322.0	-16	No load	1.40	7.0
STRONG GROWTH	C	Mid-cap Growth	A	1834.7	15	No load	1.30	27.0
STRONG GROWTH & INCOME		Large-cap Blend		482.1	96	No load	1.20	33.0
STRONG OPPORTUNITY	B	Mid-cap Blend	B+	2037.9	6	No load	1.20	15.5
STRONG SCHAFER VALUE Ⓜ	C	Mid-cap Value	D	1544.9	2	No load	1.20	-6.6
STRONG TOTAL RETURN	C	Large-cap Growth	C	1022.5	20	No load	1.10	32.1
SUNAMERICA BALANCED ASSETS A	B	Domestic Hybrid	C-	221.8	28	5.75	1.50†	22.6
TCW/DW MID-CAP EQUITY B		Mid-cap Growth		253.9	40	5.00**	2.29†	62.7
TCW/DW SMALL CAP GROWTH B	D	Small-cap Growth	C-	340.9	2	5.00**	2.25†	19.4
TEMPLETON CAPITAL ACCUMULATOR	C-	World	C	214.9	18	9.00	1.00	8.6
TEMPLETON DEVELOPING MARKETS I	F	Diversified Emerging Mkts.	B+	2148.5	-38	5.75	1.96†	-18.7
TEMPLETON FOREIGN I Ⓜ	C-	Foreign	C	11509.8	-18	5.75	1.12†	-4.9
TEMPLETON GLOBAL OPPORTUNITIES I	C-	World	D	676.1	-14	5.75	1.37†	-0.6
TEMPLETON GLOBAL SMALL COMPANY I	C-	World	D	1294.0	-25	5.75	1.27†	-11.4
TEMPLETON GROWTH I Ⓜ	C-	World	C	12595.3	-1	5.75	1.08†	-2.5
TEMPLETON WORLD I	C	World	B	8776.8	1	5.75	1.03†	6.0
THIRD AVENUE VALUE	B	Small-cap Value	B+	1600.1	-5	No load†	1.13	3.9
THORNBURG VALUE A		Mid-cap Value		234.4	194	4.50	1.61†	22.3
TIAA-CREF GROWTH & INCOME		Large-cap Blend		209.3	239	No load	0.20	30.5
TIAA-CREF GROWTH EQUITY		Large-cap Growth		258.3	301	No load	NA	36.0
TORRAY	A	Large-cap Value	B+	1460.5	140	No load	1.13	8.2
TRANSAMERICA PREMIER EQUITY INVESTOR Ⓜ		Large-cap Growth		289.7	163	No load	1.49†	33.9
TRANSAMERICA PREMIER SMALL CO. INVESTOR		Small-cap Growth		206.0	NM	No load	1.40†	80.3
TWEEDY, BROWNE AMERICAN VALUE	A	Mid-cap Value	A	1123.5	56	No load	1.39	9.6
TWEEDY, BROWNE GLOBAL VALUE	C	World	B+	2498.8	26	No load	1.42	11.0
UNITED ACCUMULATIVE A Ⓜ	B	Large-cap Blend	C	1781.4	12	5.75	0.82†	22.6
UNITED CONTINENTAL INCOME A	B	Domestic Hybrid	C-	581.3	2	5.75	0.91†	10.4
UNITED INCOME A Ⓜ	B	Large-cap Blend	C-	7211.1	16	5.75	0.84†	24.0
UNITED INTERNATIONAL GROWTH A	C-	Foreign	C	1179.5	16	5.75	1.23†	21.4
UNITED NEW CONCEPTS A	C	Mid-cap Growth	D	835.9	24	5.75	1.25†	38.6
UNITED RETIREMENT SHARES A	C	Domestic Hybrid	B	805.8	5	5.75	0.93†	9.7
UNITED SCIENCE & TECHNOLOGY A Ⓜ	C-	Technology	C	1439.4	35	5.75	1.02†	59.3
UNITED VANGUARD A	C	Large-cap Growth	C-	1602.1	11	5.75	1.09†	31.2
USAA AGGRESSIVE GROWTH	D	Small-cap Growth	C	833.3	14	No load	0.71	22.2
USAA CORNERSTONE STRATEGY	C	Mid-cap Value	C	1367.0	-3	No load	1.01	2.0
USAA EMERGING MARKETS		Diversified Emerging Mkts.		234.0	-24	No load	1.31	-26.1
USAA GROWTH	C	Large-cap Blend	F	1546.7	14	No load	0.96	32.1
USAA GROWTH & INCOME	C	Large-cap Value	C-	1054.6	13	No load	0.85	6.5
USAA GROWTH & TAX STRATEGY	B+	Domestic Hybrid	B	237.7	12	No load	0.71	11.6
USAA GROWTH STRATEGY		Mid-cap Growth		256.5	12	No load	1.25	15.0
USAA INCOME STOCK Ⓜ	B	Large-cap Value	B	2490.7	4	No load	0.65	8.1
USAA INTERNATIONAL Ⓜ	C-	Foreign	C	531.0	-8	No load	1.05	4.0
USAA S&P 500 INDEX		Large-cap Blend		1852.8	195	No load	0.18	28.6
USAA WORLD GROWTH	C-	World	C	327.8	1	No load	1.13	10.4
VALUE LINE	C	Mid-cap Growth	B+	417.6	9	No load	0.78	20.3
VALUE LINE LEVERAGED GROWTH INVESTOR	C	Large-cap Growth	C-	608.5	41	No load	0.86	39.6
VAN KAMPEN AMERICAN VALUE B (rrrr)		Small-cap Value		301.9	183	5.00**	2.25†	8.8
VAN KAMPEN COMSTOCK A (ssss)	B+	Large-cap Value	B	1756.1	15	5.75	0.94†	20.1
VAN KAMPEN EMERGING GROWTH A (tttt)	C-	Mid-cap Growth	C	2989.1	42	5.75	1.05†	34.7
VAN KAMPEN ENTERPRISE A (uuuu)	C	Large-cap Blend	D	2126.7	24	5.75	0.93†	23.6
VAN KAMPEN EQUITY-INCOME B (vvvv)	B+	Domestic Hybrid	B	1139.7	26	5.00**	1.64†	16.2
VAN KAMPEN GLOBAL EQUITY ALLOC. A (wwwv)	C	World	B	241.7	224	5.75	1.61†	19.4
VAN KAMPEN GLOBAL EQUITY B (xxxx)		World		636.3	36	5.00**	2.45†	12.6
VAN KAMPEN GROWTH & INCOME A (yyyy)	B	Large-cap Blend	C	928.9	19	5.75	0.94†	18.4

*Includes redemption fee. **Includes deferred sales charge. †12(b)-1 plan in effect. ‡Not currently accepting new accounts. \$Less than 0.5% of assets. NA=Not available. (pppp) Formerly Star Relative Value Tr. (qqqq) Formerly Stein Roe Young Investor. (rrrr) Formerly Morgan Stanley American Value B. (ssss) Formerly Van Kampen Amer. C. Formerly Van Kampen Amer. Cap. Emerging Growth A. (uuuu) Formerly Van Kampen Amer. Cap. Enterprise A. (vvvv) Formerly Van Kampen Amer. Cap. Equity-Income B. (wwwv) Formerly Van Kampen Amer. Cap. Global Equity Alloc. A. (xxxx) Formerly Morgan Stanley Global Equity B. (yyyy) Formerly Van Kampen Amer. Cap. Growth & Income A.

Equity Funds

AL TOTAL RETURNS (%) HISTORY					PORTFOLIO DATA					RISK					TELEPHONE	
5 YEARS TAX AFTER TAX	10 YEARS PRETAX AFTER TAX	RESULTS VS ALL FUNDS	TURNOVER	CASH %	FOREIGN %	P-E RATIO	UNTAXED GAINS (%)	LARGEST HOLDING COMPANY (% ASSETS)	LEVEL	BEST QTR %RET		WORST QTR %RET				
NA	NA	NA	NA	1	Low	0	21	31	32	General Electric (3)		NA	NA	800-222-8222		
NA	NA	NA	NA	2		2	8	27	NA	IBM (6)		NA	NA	800-677-3863		
NA	NA	NA	NA	2	Average	5	5	16	-14	Exide (3)		NA	NA	800-882-0052		
16.9	9.5	NA	NA	14	Very high	2	3	38	30	America Online (2)	High	IV 98 28.4	III 98 -22.2	800-882-0052		
16.3	NA	NA	NA	21	Average	6	8	33	36	General Electric (3)	Average	IV 98 20.3	III 98 -10.7	800-882-0052		
0	8.7	NA	NA	43	High	6	29	31	8	ACE (1)	Low	III 97 9.9	III 98 -9.3	800-882-0052		
7	10.1	12.9	10.1	23333	Low	2	13	34	30	General Electric (4)	Very low	IV 98 12.5	III 98 -6.2	800-338-2550		
6	13.3	14.6	13.6	41114	Low	5	3	42	33	Papa John's International (4)	High	II 97 21.4	III 98 -25.1	800-338-2550		
9	17.0	17.6	15.7	22221	Very low	15	3	33	42	Wal-Mart Stores (3)	Low	IV 98 17.9	III 98 -11.7	800-338-2550		
1	18.5	19.2	16.9	13221	Very low	9	2	44	61	Cisco Systems (6)	Average	IV 98 24.8	III 98 -15.1	800-338-2550		
8	6.0	13.8	10.9	11134	Average	22	9	19	18	Carlisle (3)	Average	II 97 18.7	III 98 -18.1	800-338-2550		
NA	NA	NA	NA	2	Average	9	4	38	27	Cisco Systems (3)		NA	NA	800-338-2550		
9	15.1	NA	NA	31	Very high	11	3	31	24	General Electric (3)	Average	IV 98 22.8	III 98 -11.3	800-428-6970		
3	15.3	NA	NA	22	Average	6	4	22	25	Ameritech (8)	Low	IV 97 12.2	I 94 -5.3	800-368-1030		
4	10.6	11.8	9.0	43442	Very high	1	2	37	21	General Electric (3)	Very low	IV 98 15.9	III 98 -8.2	800-368-1030		
0	12.3	NA	NA	1222	High	11	11	26	19	Tele-Comm. TCI Group Cl. A (2)	Average	IV 98 18.0	III 98 -16.5	800-368-1030		
9	6.2	14.5	11.4	11144	Very high	30	NA	31	7	Equity International (3)	High	IV 98 20.3	III 98 -17.4	800-368-1030		
5	22.8	NA	NA	12	Very high	8	2	48	35	Microsoft (3)	High	IV 98 25.0	III 98 -12.7	800-368-1030		
NA	NA	NA	NA	1	Very high	0	3	37	27	General Electric (3)		NA	NA	800-368-1030		
2	14.2	15.8	13.8	41122	Average	12	9	27	25	NIPSCO Industries (2)	Average	IV 98 17.5	III 98 -14.1	800-368-1030		
8	12.7	16.6	14.3	21123	Low	1	19	20	6	Western Resources (3)	Average	IV 98 19.7	III 98 -24.5	800-368-1030		
6	15.2	13.9	11.6	42331	Very high	9	1	43	25	MCI WorldCom (3)	Average	IV 98 22.2	III 98 -7.2	800-368-1030		
8	12.8	NA	NA	32	High	10	2	35	21	General Electric (2)	Low	IV 98 15.6	III 98 -6.0	800-858-8850		
NA	NA	NA	NA	1		3	2	45	43	Yahoo (13)		NA	NA	800-526-3143		
1	18.1	NA	NA	14	Average	1	1	49	14	Citrix Systems (6)	Very high	IV 98 32.9	III 98 -22.1	800-526-3143		
9	10.6	NA	NA	1333	Very low	10	80	21	17	Nokia Cl. K (2)	Average	IV 98 17.4	III 98 -17.0	800-342-5236		
7	-4.8	NA	NA	44	Low	18	99	14	-46	Cemex Cl. B (3)	Very high	IV 98 24.0	IV 97 -24.9	800-342-5236		
0	3.7	10.6	8.3	22444	Low	3	100	17	-14	HSBC Holdings (HK) (2)	Average	IV 98 12.0	III 98 -17.2	800-342-5236		
3	6.3	NA	NA	143	Low	29	69	22	18	British Energy 144A (3)	High	IV 98 12.8	III 98 -15.7	800-342-5236		
4	3.1	9.4	6.5	32344	Low	8	75	15	8	Gas y Electricidad Cl. 2 (2)	Average	II 95 10.5	III 98 -20.3	800-342-5236		
5	7.3	12.8	9.6	31133	Average	13	66	20	-3	General Motors (2)	Average	II 97 11.6	III 98 -15.2	800-342-5236		
5	9.9	13.3	9.7	41133	Low	5	67	19	11	Cheung Kong Holdings (2)	Average	IV 98 15.3	III 98 -14.1	800-342-5236		
3	14.6	NA	NA	222	Very low	6	15	25	23	First American Financial (7)	Low	IV 98 16.7	III 98 -14.3	800-443-1021		
4	NA	NA	NA	1	High	2	16	29	16	Bank One (6)		NA	NA	800-847-0200		
NA	NA	NA	NA		Very low	1	6	33	16	General Electric (3)		NA	NA	800-223-1200		
NA	NA	NA	NA			3	5	38	NA	Tyco Intl. (5)		NA	NA	800-223-1200		
NA	23.1	NA	NA	3111	Very low	5	NA	22	15	SLM Holding (8)	Average	IV 98 21.3	III 98 -21.3	800-443-3036		
NA	NA	NA	NA	1	Very low	1	2	48	29	Dell Computer (8)		NA	NA	800-892-7587		
NA	NA	NA	NA			14	NA	45	25	ENV0Y (7)		NA	NA	800-892-7587		
NA	19.7	NA	NA	11	Very low	6	16	21	23	Pharmacia & Upjohn (Dep.) (4)	Low	II 97 15.7	III 98 -14.6	800-432-4789		
NA	12.0	NA	NA	33	Very low	4	81	25	13	Pharmacia & Upjohn (5)	Low	IV 98 16.2	III 98 -17.9	800-432-4789		
NA	14.2	15.5	11.5	33321	Very high	8	7	31	13	Fannie Mae (6)	Low	II 97 14.2	III 98 -7.4	800-366-5465		
NA	9.4	12.4	10.2	33333	Average	3	8	27	18	SBC Communications (3)	Low	II 97 9.5	III 98 -6.0	800-366-5465		
NA	16.8	17.2	14.8	22221	Low	29	7	35	36	Warner-Lambert (3)	Average	II 97 18.7	III 98 -7.3	800-366-5465		
NA	9.9	12.1	9.8	41442	High	18	95	32	19	Novartis (Reg) (4)	High	I 98 19.8	III 98 -17.3	800-366-5465		
NA	18.0	19.8	18.4	111112	Low	19	4	44	40	America Online (5)	High	IV 98 31.7	III 98 -15.9	800-366-5465		
NA	9.3	13.1	10.7	22333	Average	7	6	27	19	SBC Communications (2)	Low	II 97 9.8	III 98 -5.8	800-366-5465		
NA	23.3	20.8	18.3	12112	Average	3	4	48	56	Yahoo (5)	High	IV 98 34.5	I 97 -15.2	800-366-5465		
NA	14.0	14.5	11.6	33322	High	6	NA	43	30	EMC/Mass. (6)	Average	IV 98 24.6	III 98 -9.5	800-366-5465		
NA	15.7	14.8	12.5	33313	Average	2	4	41	30	Express Scripts Cl. A (3)	Very high	IV 98 38.0	III 98 -22.4	800-382-8722		
NA	8.0	10.7	8.9	42443	Low	0	36	25	16	Bristol-Myers Squibb (2)	Low	II 97 8.5	III 98 -10.7	800-382-8722		
NA	NA	NA	NA	4	Low	11	96	17	-53	Panamerican Beverages (2)		NA	NA	800-382-8722		
NA	13.5	15.5	12.9	23112	Average	1	7	35	24	Cadbury Schweppes ADR (5)	Average	IV 98 26.1	IV 97 -16.1	800-382-8722		
NA	15.7	NA	NA	22	Low	3	1	30	21	Merck (3)	Average	IV 98 17.5	III 98 -17.5	800-382-8722		
NA	9.9	NA	NA	4333	Average	1	0	35	22	Bristol-Myers Squibb (2)	Very low	IV 98 8.6	III 98 -3.9	800-382-8722		
NA	NA	NA	NA	3	Average	2	23	32	15	AAR (2)		NA	NA	800-382-8722		
NA	13.2	14.9	12.4	23222	Low	9	6	27	26	Bristol-Myers Squibb (5)	Low	IV 98 10.7	III 98 -8.1	800-382-8722		
NA	7.2	9.7	8.7	41134	Low	6	99	22	17	Nokia Cl. A ADR (2)	Average	IV 98 16.8	III 98 -20.2	800-382-8722		
NA	NA	NA	NA	1	Low	3	3	32	34	General Electric (3)		NA	NA	800-382-8722		
NA	9.7	NA	NA	33	Average	3	63	30	27	Nokia Cl. A ADR (1)	Average	IV 98 20.6	III 98 -19.0	800-382-8722		
NA	14.3	17.6	14.1	12222	Average	12	NA	42	48	Compuware (3)	Average	IV 98 23.9	III 98 -13.2	800-223-0818		
NA	20.5	19.7	16.8	13111	Low	4	NA	42	67	SunAmerica (5)	High	IV 98 31.0	III 98 -13.3	800-223-0818		
NA	NA	NA	NA	2	Very high	-3	4	24	1	Safety-Kleen (2)		NA	NA	800-421-5666		
NA	14.1	17.1	12.6	23221	High	3	8	25	18	Tenet Healthcare (4)	Low	IV 98 14.8	III 98 -6.0	800-421-5666		
NA	19.0	22.2	20.2	11112	Average	6	1	48	37	Dell Computer (6)	High	IV 98 26.8	III 98 -12.8	800-421-5666		
NA	18.4	18.8	15.3	12111	Average	2	1	36	37	S&P 500 Index (Fut.) (4)	Average	IV 98 24.6	III 98 -15.1	800-421-5666		
NA	13.4	NA	NA	32	Average	7	8	25	19	S&P 500 Index (Fut.) (3)	Low	II 97 12.6	III 98 -8.0	800-421-5666		
NA	11.4	NA	NA	33	High	19	47	28	12	CAC 40 Index (Fut.) (3)	Average	IV 98 16.0	III 98 -11.5	800-282-4404		
NA	NA	NA	NA			0	61	23	8	American Stores (3)		NA	NA	800-282-4404		
NA	15.2	15.5	12.6	32222	Average	6	9	26	19	S&P 500 Index (Fut.) (5)	Low	IV 98 15.9	III 98 -11.5	800-421-5666		

DATA: MORNINGSTAR, INC., CHICAGO, IL.

MUTUAL FUND SCOREBOARD

FUND	OVERALL RATING (COMPARES RISK-ADJUSTED PERFORMANCE OF EACH FUND AGAINST ALL FUNDS)	CATEGORY	RATING (COMPARES RISK-ADJUSTED PERFORMANCE OF FUND WITHIN CATEGORY)	SIZE ASSETS \$MIL.	% CHG. 1997-98	FEES SALES CHARGE (%)	EXPENSE RATIO (%)	1998 RE- TURN PRE- TAX
VAN KAMPEN PACE A (zzzz)	C	Large-cap Blend	C-	3752.1	15	5.75	0.88†	22.0
VANGUARD AGGRESSIVE GROWTH (aaaaa)	A	Mid-cap Value	A	534.6	13	1.00*	0.40	0.5
VANGUARD ASSET ALLOCATION	A	Domestic Hybrid	A	6974.2	70	No load	0.49	25.4
VANGUARD BALANCED INDEX	A	Domestic Hybrid	B+	2003.6	60	No load	0.20	17.9
VANGUARD CAPITAL OPPORTUNITY (bbbbb)	A	Mid-cap Growth	B	206.5	226	1.00*	0.94	32.0
VANGUARD EMERG. MARKET STOCK INDEX (ccccc)	D	Diversified Emerging Mkts.	C	577.0	-15	1.00*	0.57	-18.2
VANGUARD ENERGY (ddddd)	A	Natural Resources	C	819.9	-31	1.00*	0.38	-20.5
VANGUARD EQUITY-INCOME	A	Large-cap Value	A	2938.5	40	No load	0.45	17.3
VANGUARD EUROPEAN STOCK INDEX (eeeee)	B	Europe	B+	4479.3	84	No load	0.31	28.9
VANGUARD EXPLORER	C-	Small-cap Growth	B	2463.6	-3	No load	0.62†	3.5
VANGUARD EXTEND MARKET INDEX (fffff)	C	Mid-cap Blend	C	2773.8	2	No load	0.23	8.3
VANGUARD 500 INDEX (ggggg)	A	Large-cap Blend	A	74228.5	50	No load	0.19	28.6
VANGUARD GOLD & PRECIOUS METALS (hhhhh)	F	Precious Metals	B	311.4	6	1.00*	0.62	-3.9
VANGUARD GROWTH & INCOME	B+	Large-cap Value	B	5160.5	141	No load	0.36	23.9
VANGUARD GROWTH INDEX (iiiiii)	A	Large-cap Growth	A	5721.0	142	No load	0.20	42.2
VANGUARD HEALTH CARE (jjjjj)	A	Health	B+	9268.4	108	1.00*	0.40	40.8
VANGUARD INTL. GROWTH	C-	Foreign	B	7723.2	13	No load	0.59	16.9
VANGUARD INTERNATIONAL VALUE	C-	Foreign	C	806.3	4	No load	0.49	19.5
VANGUARD LIFESTRATEGY CONS. GROWTH	A	Domestic Hybrid	B	1415.7	76	No load	0.00	15.9
VANGUARD LIFESTRATEGY GROWTH	A	Large-cap Blend	A	1924.1	70	No load	0.00	21.4
VANGUARD LIFESTRATEGY INCOME	A	Domestic Hybrid	A	448.9	80	No load	0.00	13.2
VANGUARD LIFESTRATEGY MOD. GROWTH	A	Domestic Hybrid	A	2201.9	62	No load	0.00	19.0
VANGUARD MORGAN GROWTH (kkkkk)	C	Large-cap Blend	C-	3555.2	27	No load	0.48	22.3
VANGUARD PACIFIC STOCK INDEX (lllll)	F	Japan	B	1032.8	25	No load	0.35	2.4
VANGUARD PRIMECAP (mmmmm)	B+	Large-cap Blend	B	11209.9	37	No load†	0.51	25.4
VANGUARD REIT INDEX (nnnnn)	A	Real Estate	A	923.6	-28	1.00*	0.24	-16.3
VANGUARD SMALL CAP INDEX (ooooo)	C-	Small-cap Blend	C	2643.8	0	No load	0.23	-2.6
VANGUARD STAR	B+	Domestic Hybrid	B	8082.6	10	No load	0.00	12.4
VANGUARD TAX-MGD. BALANCED (ppppp)	A	Domestic Hybrid	A	206.9	73	2.00*	0.17	16.9
VANGUARD TAX-MGD. CAP. APPRECIATION (qqqqq)	A	Large-cap Growth	A	1478.8	66	2.00*	0.17	27.9
VANGUARD TAX-MGD. GROWTH & INCOME (rrrrr)	A	Large-cap Blend	A	1352.4	133	2.00*	0.17	28.7
VANGUARD TOTAL INTL. STK. IDX. (sssss)	A	Foreign	A	2445.4	152	No load	0.00	15.6
VANGUARD TOT. STOCK MARKET INDEX (ttttt)	B+	Large-cap Blend	B	8548.7	68	No load	0.20	23.3
VANGUARD U.S. GROWTH	A	Large-cap Growth	A	13623.6	69	No load	0.41	40.0
VANGUARD UTILITIES INCOME (uuuuu)	B+	Utilities	B+	951.0	39	No load	0.44	21.8
VANGUARD VALUE INDEX (vvvvv)	B	Large-cap Value	C	2328.7	30	No load	0.20	14.6
VANGUARD WELLESLEY INCOME (wwwww)	A	Domestic Hybrid	B+	8497.8	11	No load	0.31	11.8
VANGUARD WELLINGTON (xxxxx)	B+	Domestic Hybrid	B	25760.9	18	No load	0.29	12.1
VANGUARD WINDSOR (yyyyy)	C	Large-cap Value	D	18187.7	-13	No load†	0.27	0.8
VANGUARD WINDSOR II (zzzzz)	B+	Large-cap Value	B+	31538.2	29	No load	0.37	16.4
VICTORY BALANCED A	B+	Domestic Hybrid	B+	445.1	28	5.75	1.25	17.9
VICTORY DIVERSIFIED STOCK A	B+	Large-cap Blend	B	972.8	22	5.75	1.03	23.2
VICTORY GROWTH	B+	Large-cap Growth	B+	311.7	58	5.75	1.34	37.2
VICTORY SPECIAL VALUE A	C	Mid-cap Value	D	346.9	-22	5.75	1.37	-9.1
VICTORY STOCK INDEX	B+	Large-cap Blend	B	712.8	41	5.75	0.56	27.7
VICTORY VALUE	B+	Large-cap Value	B	562.9	13	5.75	1.32	26.3
VINTAGE EQUITY S (aaaaa)	B+	Large-cap Blend	B	210.3	-45	No load	1.31†	27.5
WADDELL & REED GROWTH B	C	Mid-cap Growth	A	354.3	32	3.00**	2.13†	44.6
WADDELL & REED TOTAL RET. B	B	Large-cap Blend	C-	478.7	15	3.00**	1.95†	20.7
WARBURG PINCUS CAP. APPR. COMM.	B+	Large-cap Blend	B	755.3	21	No load	1.01	25.8
WARBURG PINCUS EMERG. GROWTH COMM.	C-	Mid-cap Growth	C	1777.7	13	No load	1.22	5.8
WARBURG PINCUS GROWTH & INCOME COMM.	C	Large-cap Value	F	732.3	19	No load	1.15	12.7
WARBURG PINCUS INTL. EQUITY COMM.	D	Foreign	D	1172.1	-40	No load	1.33	4.6
WASHINGTON MUTUAL INVESTORS	A	Large-cap Value	A	51773.8	35	5.75	0.62†	19.4
WEBS INDEX JAPAN	A	Japan	A	299.1	66	No load	NA†	3.5
WEITZ PARTNERS VALUE	A	Mid-cap Value	A	263.7	97	No load	1.24	29.1
WEITZ HICKORY	B	Small-cap Blend	A	506.5	NM	No load†	1.46	33.0
WEITZ VALUE	A	Mid-cap Value	A	1059.3	189	No load	1.27	29.0
WESTCORE MIDCO GROWTH	D	Mid-cap Growth	C-	491.3	-18	No load	1.14	10.4
WHITE OAK GROWTH STOCK	C	Large-cap Growth	C	1092.3	179	No load	0.98	39.5
WINTHROP SMALL COMPANY VALUE A	C-	Small-cap Blend	B	246.8	-14	4.75	1.35†	-4.6
WILLIAM BLAIR GROWTH	C	Mid-cap Growth	C	742.1	25	No load	0.84	27.2
WM BOND & STOCK A (bbbbb)	B	Domestic Hybrid	C	304.3	-3	5.50	0.99†	6.9
WM GROWTH & INCOME A (ccccc)	B	Large-cap Blend	C-	541.4	75	5.50	1.05†	14.4
WM NORTHWEST A (ddddd)	C	Mid-cap Blend	C	304.0	18	5.50	1.05†	23.1
WRIGHT SELECTED BLUE CHIP EQUITY	C	Mid-cap Value	C	221.5	-15	No load	1.08†	0.1
YACKTMAN	B	Mid-cap Blend	B+	307.4	-72	No load	0.86	0.6
ZWEIG APPRECIATION A	C	Small-cap Value	B	239.9	-18	5.50	1.52†	-1.0
ZWEIG MANAGED ASSETS C	B+	International Hybrid	B+	429.6	5	1.25**	2.29†	14.0
ZWEIG STRATEGY C	C	Mid-cap Value	C-	425.0	-28	1.25**	1.94†	-2.6

*Includes redemption fee. **Includes deferred sales charge. †12(b)-1 plan in effect. ‡Not currently accepting new accounts. \$Less than 0.5% of assets. NA=Not available. †(zzzz) Formerly Van Kampen Amer. Cap. Pace A. (aaaaa) Formerly Vanguard Horizon Aggr. Gr. (bbbbb) Formerly Vanguard Horizon Cap. Opp. (ccccc) Formerly Vanguard Intl. Eq. Idx. (ddddd) Formerly Vanguard Sp. Engr. (eeeee) Formerly Vanguard Intl. Eq. Idx. Euro. (fffff) Formerly Vanguard Idx. Ext. Mkt. (ggggg) Formerly Vanguard Idx. 500. (hhhhh) Formerly Vanguard Metals. (iiiiii) Formerly Vanguard Idx. Growth. (jjjjj) Formerly Vanguard Sp. Health Care. (kkkkk) Formerly Vanguard/Morgan Cap. (lllll) Formerly Vanguard Intl. Eq. Id. Pac. (mmmmm)

Equity Funds

AL TOTAL RETURNS (%)				HISTORY	PORTFOLIO DATA								RISK				TELEPHONE
5 YEARS LTAZ		10 YEARS PRETAX		RESULTS VS ALL FUNDS	TURNOVER	CASH %	FOREIGN %	P-E RATIO	UNTAXED GAINS (%)	LARGEST HOLDING COMPANY (% ASSETS)	LEVEL	BEST QTR %RET		WORST QTR %RET			
3.6	15.2	16.3	12.3	2321	Average	2	3	30	29	Microsoft (3)	Average	IV 98	20.5	III 98	-12.6	800-421-5666	
NA	NA	NA	NA	3	Average	0	NA	21	12	McKesson (3)			NA		NA	800-662-7447	
3.5	17.0	16.7	14.3	2321	Average	0	2	33	23	Microsoft (1)	Very low	IV 98	14.3	I 94	-4.6	800-662-7447	
5.8	14.3	NA	NA	32	Low	1	0	31	26	J. Ray McDermott (3)	Very low	IV 98	12.7	III 98	-5.6	800-662-7447	
NA	NA	NA	NA	3	High	15	5	34	7	DeKalb Genetics Cl. B (5)			NA		NA	800-662-7447	
NA	NA	NA	NA	4	Low	6	100	18	-49	Telefonos de Mexico Cl. L (3)			NA		NA	800-662-7447	
1.6	7.3	11.1	9.3	1424	Low	3	33	24	2	Chevron (4)	High	III 97	16.1	III 98	-14.2	800-662-7447	
1.6	17.5	15.6	13.5	3321	Low	1	3	26	36	Bell Atlantic (3)	Low	IV 98	13.2	I 94	-6.6	800-662-7447	
1.3	18.4	NA	NA	231	Very low	0	100	29	37	Royal Dutch Petroleum (2)	Average	I 98	20.4	III 98	-14.4	800-662-7447	
5	9.6	13.1	11.4	3124	Average	9	3	30	21	Genzyme-General Division (2)	High	IV 98	23.3	III 98	-18.5	800-662-7447	
2	14.4	15.3	13.8	3222	Very low	0	0	28	29	Berkshire Hathaway Cl. A (3)	Average	IV 98	22.1	III 98	-18.7	800-662-7447	
0	23.1	19.0	17.9	1311	Very low	0	2	34	46	Microsoft (3)	Low	IV 98	21.4	III 98	-10.0	800-662-7447	
1	-12.6	-1.1	-1.8	4244	Low	3	75	32	-58	Anglogold ADR (9)	Very high	III 94	17.5	IV 97	-28.8	800-662-7447	
8	20.1	19.0	16.6	1311	Average	1	1	29	22	Merck (3)	Average	IV 98	20.6	III 98	-13.0	800-662-7447	
8	27.1	NA	NA	11	Low	0	1	40	32	Microsoft (7)	Low	IV 98	24.6	III 98	-7.3	800-662-7447	
4	26.7	24.2	22.4	1311	Very low	11	18	42	31	Warner-Lambert (5)	Low	II 97	19.1	I 94	-5.3	800-662-7447	
1	9.1	9.7	8.7	4333	Low	10	99	31	25	Novartis (Reg.) (5)	Average	IV 98	17.8	III 98	-12.8	800-662-7447	
7	4.3	7.7	5.1	4444	Low	5	99	26	0	Nestle (Reg.) (5)	Average	IV 98	20.6	III 98	-15.7	800-662-7447	
1A	NA	NA	NA	2	Very low	0	6	29	13	Vanguard Total Bond Mkt. Idx. (30)			NA		NA	800-662-7447	
1A	NA	NA	NA	2	Very low	0	15	30	23	Vanguard Total Stk. Mkt. Idx. (49)			NA		NA	800-662-7447	
1A	NA	NA	NA	3	Very low	0	1	28	8	Vanguard Total Bond Mkt. Idx. (50)			NA		NA	800-662-7447	
1A	NA	NA	NA	2	Very low	0	11	29	19	Vanguard Total Stk. Mkt. Idx. (34)			NA		NA	800-662-7447	
4	18.4	17.1	14.1	2411	Average	7	5	32	35	Home Depot (3)	Average	IV 98	25.9	III 98	-16.4	800-662-7447	
0	-4.3	NA	NA	444	Very low	0	99	33	-28	NT&T (5)	Very high	IV 98	26.5	IV 97	-20.7	800-662-7447	
1	23.9	20.0	18.7	2211	Very low	9	11	31	44	Guidant (4)	Average	IV 98	28.8	III 98	-13.0	800-662-7447	
A	NA	NA	NA	3	Very low	2	NA	23	-5	Equity Office Properties Tr. (5)			NA		NA	800-662-7447	
9	11.1	13.0	10.9	4123	Low	0	0	23	9	Reinsurance Grp. of America (5)	High	II 97	17.3	III 98	-20.1	800-662-7447	
2	12.6	13.5	10.9	3322	Very low	12	4	25	23	Vanguard Windsor II (28)	Very low	IV 98	11.5	III 98	-8.1	800-662-7447	
A	NA	NA	NA	2	Very low	0	0	36	22	General Electric (1)			NA		NA	800-662-7447	
A	NA	NA	NA	1	Very low	0	0	36	40	General Electric (3)			NA		NA	800-662-7447	
A	NA	NA	NA	1	Very low	0	2	33	29	Microsoft (3)			NA		NA	800-662-7447	
A	NA	NA	NA	4	Very low	0	100	30	6	Vanguard Intl. Equity Index E (76)			NA		NA	800-662-7447	
5	20.6	NA	NA	11	Very low	0	0	32	32	Microsoft (2)	Average	IV 98	21.5	III 98	-12.1	800-662-7447	
2	24.5	21.2	20.1	1411	Average	3	2	43	44	Microsoft (5)	Low	IV 98	24.7	III 98	-9.4	800-662-7447	
5	12.4	NA	NA	32	Low	0	8	24	27	Pinnacle West Capital (3)	Very low	IV 97	13.1	I 94	-7.0	800-662-7447	
8	18.1	NA	NA	11	Low	0	4	24	27	Exxon (4)	Average	IV 98	17.5	III 98	-12.9	800-662-7447	
3	9.8	13.2	10.3	2222	Low	3	5	25	16	Bell Atlantic (2)	Very low	II 95	8.5	I 94	-4.5	800-662-7447	
2	13.8	14.3	11.9	3322	Low	1	9	26	21	Pharmacia & Upjohn (2)	Very low	II 97	12.2	III 98	-4.2	800-662-7447	
1	11.6	13.4	9.9	3323	Average	0	12	21	10	Citicorp (6)	Average	IV 98	13.5	III 98	-19.5	800-662-7447	
3	18.7	17.3	14.8	3311	Low	2	2	25	27	Anheuser-Busch (3)	Low	IV 98	14.9	III 98	-11.8	800-662-7447	
3	13.0	NA	NA	32	High	3	8	28	23	IBM (2)	Very low	IV 98	10.2	I 94	-4.1	800-539-3863	
3	18.3	NA	NA	311	Average	2	4	28	14	American Home Products (3)	Average	IV 98	17.6	III 98	-7.8	800-539-3863	
1	22.5	NA	NA	21	Low	2	1	36	43	General Electric (4)	Average	IV 98	22.8	III 98	-6.7	800-539-3863	
2	10.7	NA	NA	23	Low	1	0	22	15	Everest Reinsurance Hldg. (2)	Average	IV 98	14.1	III 98	-20.9	800-539-3863	
3	21.4	NA	NA	11	Very low	24	2	32	21	S&P 500 Index (Fut.) (16)	Average	IV 98	21.1	III 98	-10.0	800-539-3863	
3	19.0	NA	NA	11	Low	1	NA	29	34	IBM (3)	Low	IV 98	18.2	III 98	-7.4	800-539-3863	
3	21.2	NA	NA	11	Average	1	5	36	44	Warner-Lambert (3)	Average	IV 98	27.5	III 98	-15.2	800-438-6375	
20.1	NA	NA	NA	11	Low	15	4	39	57	America Online (5)	High	IV 98	28.8	III 98	-13.7	800-366-5465	
16.8	NA	NA	NA	22	Low	8	5	35	32	Warner-Lambert (3)	Average	II 97	17.1	III 98	-7.1	800-366-5465	
1	18.5	17.8	15.2	3211	Very high	5	NA	41	27	Freddie Mac (4)	Average	IV 98	21.4	III 98	-11.4	800-927-2874	
14.5	16.5	15.6	3113	Average	8	2	39	26	26	Citrix Systems (3)	High	IV 98	23.9	III 98	-23.0	800-927-2874	
11.5	14.7	12.1	2133	High	10	10	23	17	17	IBM (3)	Average	IV 98	16.5	III 98	-14.4	800-927-2874	
2.9	NA	NA	124	Average	5	99	28	-16	16	Suez Lyonnaise Des Eaux (2)	High	I 98	14.1	III 98	-17.8	800-927-2874	
19.6	17.8	15.5	2311	Low	5	NA	28	35	35	AT&T (3)	Low	II 97	14.4	III 98	-7.0	800-421-4120	
NA	NA	NA	NA	4		4	100	37	NA	NT&T (7)			NA		NA	800-810-9327	
19.4	18.7	15.9	3121	Low	13	NA	27	34	34	Telephone & Data Systems (6)	Low	I 98	16.6	III 98	-9.0	800-232-4161	
22.2	NA	NA	31	Low	17	NA	25	6	6	Centennial Cellular Cl. A (9)	Average	I 98	24.1	III 98	-15.6	800-232-4161	
18.8	18.3	15.9	3231	Low	19	0	27	17	17	Telephone & Data Systems (6)	Low	I 98	16.5	III 98	-7.3	800-232-4161	
10.7	18.1	14.9	1123	Average	2	2	43	26	26	MCI WorldCom (5)	High	IV 98	25.2	III 98	-18.8	800-392-2673	
30.0	NA	NA	11	Very low	2	0	41	23	23	Eli Lilly (6)	High	IV 98	37.5	III 98	-19.1	888-462-5386	
9.3	13.7	11.2	3133	Low	0	NA	20	29	29	Carlisle (2)	Average	IV 98	14.8	III 98	-18.2	800-225-8011	
18.1	19.0	16.0	1232	Low	10	3	42	45	45	Automatic Data Processing (4)	Average	IV 98	23.7	III 98	-12.5	800-742-7272	
10.8	11.9	9.5	3333	Average	1	5	24	16	16	Columbia/HCA Healthcare (1)	Very low	IV 98	12.9	III 98	-10.2	800-543-8072	
17.9	14.7	12.5	3312	Average	1	6	31	24	24	Sprint (FON Group) (2)	Average	IV 98	21.3	III 98	-14.5	800-543-8072	
18.4	18.0	16.8	1421	Low	2	0	31	43	43	Microsoft (6)	High	IV 98	45.3	III 98	-17.9	800-543-8072	
11.5	13.3	10.1	2422	Low	2	NA	21	25	25	VF (3)	Average	IV 98	18.7	III 98	-19.2	800-888-9471	
13.1	NA	NA	13	Average	4	1	21	36	36	Philp Morris (11)	Low	IV 98	16.1	III 98	-16.4	800-525-8258	
9.1	NA	NA	33	Average	42	3	15	23	23	TR Financial (1)	Low	IV 98	15.0	III 98	-20.6	800-444-2706	
7.5	NA	NA	41	High	15	52	27	18	18	Nokia Cl. A (1)	Very low	I 98	9.3	III 98	-4.3	800-444-2706	
8.2	NA	NA	34	High	13	3	14	19	19	S&P 500 Index (Fut.) (4)	Low	IV 98	12.9	III 98	-20.1	800-444-2706	

Formerly Vanguard Sp. REIT Idx. (ooooo) Formerly Vanguard Idx. Sm. Cap Stock. (ppppp) Formerly Vanguard T-M. Fund Bal. Port. (qqqqq) Formerly Vanguard T-M Fund Cap
 rily Vanguard T-M Fund Gr. & Inc. Port. (sssss) Formerly Vanguard STAR Tot. Intl. (ttttt) Formerly Vanguard Idx. Tot. Stk. Mkt. (uuuuu) Formerly Vanguard Sp. Util. Inc. (vvvvv)
 1. (wwwvv) Formerly Vanguard/Wellesley Inc. (xxxxx) Formerly Vanguard/Wellington. (yyyyy) Formerly Vanguard/ Windsor. (zzzzz) Formerly Vanguard/ Windsor II. (aaaaa) Formerly
 9. (bbb) Formerly Composite Bd. & Stk. A. (cccccc) Formerly Composite Gr. & Inc. A. (ddddd) Formerly Composite Northwest A. DATA: MORNINGSTAR, INC., CHICAGO, IL.

BY GENE G. MARCIAL

SPICING THINGS UP AT THE A&P

In the fast-consolidating supermarket business, the stock of Great Atlantic & Pacific Tea (GAP), one of the nation's top 10 grocery chains, has been a laggard. While its peers trade at about three times book value, A&P sells at only 1.2 times book. At about "13.6 times our 1999 operating earnings estimate," says Debra Levin, an analyst at Morgan Stanley Dean Witter, A&P shares are the least expensive of the supermarket stocks. She thinks A&P, now at 30, is attractive and worth about 40. She figures A&P will earn \$1.45 a share in the year ending Feb. 28, 1999, and \$2.20 in fiscal 2000.

READING THE LEAVES



DATA: BLOOMBERG FINANCIAL MARKETS

Other pros think that the stock could be worth even more. Whispers are that management recently embarked on a restructuring of the company to make it a more desirable buyout candidate. It is closing 127 underperforming stores, and it plans to open 175 to 200 new outlets over the next three years.

Tengelmann Group, Germany's fifth-largest food retailer, which operates 5,834 supermarkets worldwide, owns 55% of A&P stock. Christian Haub, who assumed the title of president and CEO in May, 1998, is the son of Erivan Haub, the controlling stockholder of Tengelmann.

"It must be frustrating for Tengelmann to see A&P selling barely above its book value of \$25.50 [a share]," notes investment adviser Charles LaLoggia. He thinks Tengelmann will improve A&P's profitability and then sell it.

Alternatively, A&P could acquire another supermarket chain or do a merger, thereby making it a better competitor in an environment where its chief rivals are consolidating. LaLoggia thinks that any of the nation's top three food chains—Kroger, Safeway, and Albert-

son's—would find A&P a compelling target. He notes that Haub has said publicly that he "would not rule out a merger" as a means "of improving the company a lot more quickly than we have been able to do in the past." Spokesman Andy Corranio says that A&P is looking to acquire other companies in order to solidify its core markets.

A VISUAL-ARTS WEB SPIN-OFF?

After the dazzling success of recent Internet initial public offerings, a number of companies are thinking of spinning off their E-commerce operations and taking them public. One company rumored to be preparing for such a leap: International Microcomputer Software (IMSI), which on Jan. 14 signed an advertising agreement with Yahoo!, a leading Net portal and search engine company.

IMSI, which makes software in 13 languages and sells it in 60 countries, owns several Web sites, including ArtToday.com, a subscription-based online provider of visual content, offering 750,000 photos, clip-art items, and fonts. The site has more than 50,000 subscribers, paying up to \$29.95 a year for unlimited access to the art images.

In just a few months, IMSI has acquired three more Internet companies, launched its MasterClips art gallery on the Internet, and "developed the largest Web site for visual arts—that gets some 1.3 million visits a month," says Brian Swift, chairman and director of research of Security Research Associates in San Francisco.

Management, he says, wants to capitalize on the red-hot Internet market and could spin out the ArtToday.com operations through an IPO, and keep or sell its other retail business. The company recently hired investment bank Hambrecht & Quist to suggest moves to maximize shareholder value.

Swift figures IMSI's Internet operations are worth \$100 million to \$120 million, or about 15 a share. He be-

lieves the stock, now at 13, is worth on fundamentals. But with a possible IPO, Swift says, "who knows how it will fly?"

THE NET MAY MAKE HANOVER BOUNCE

Another company that's Internet-bound is Hanover Direct, which was in dire financial straits years ago. Formerly called Hanover Hardart, the company has gone through a recapitalization and is now focusing on the Internet. It offers a variety of brand-name merchandise, including men's and women's apparel and gifts, which it sells through direct mail, catalogs, and the Internet. Says CEO Rakesh Kaul: "We're moving rapidly to shift our 25 million customers away from catalogs to Internet shopping."

Will Hanover Direct spin off its Internet operation and take it public? "We are looking at all options that are in the best interests of our customers and shareholders," says Kaul. "We are committed to building relationships to expand our Internet commerce." Hanover and Excite reformed an E-commerce alliance that adds Hanover's catalogs to Excite's online site. Kaul says that Hanover's largest shareholder, the Swiss company Pagnie Financière Richemont, has a 51% stake, strongly supporting the Internet move. Another big holder is Regan Partners, which owns 17%.

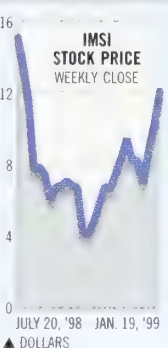
One New York investment manager is betting that Kaul will opt for the Net unit public. With the stock at 3 a share, "Hanover isn't even a runaway Internet stock just yet," says this pro. "That's one very attractive side to the stock," he adds. He estimates that Hanover's 1998 revenues will match last year's \$489 million, with the company posting a loss or breaking even.

LATELY, A LACKLUSTER



DATA: BLOOMBERG FINANCIAL MARKETS

TURNING AN EYE TO AN IPO



DATA: BLOOMBERG FINANCIAL MARKETS

BusinessWeek ONLINE

For more coverage of the market, visit our Web site at businessweek.com.

CATCH THE SENIOR PGA TOUR'S BEST ON

ESPN®



See Defending Champion Larry Nelson, Lee Trevino, Hale Irwin, Chi Chi Rodriguez, Gary Player and seventy-three other SENIOR PGA TOUR pros battle it out for a share of the \$1.2 million purse at the American Express® Invitational.

American Express
Invitational



TUNE INTO ESPN
THE WORLDWIDE LEADER IN SPORTS

February 12, 2 to 4 p.m. EST

February 13, 5:30 to 7 p.m. EST

February 14, 5:30 to 7 p.m. EST

TOURNAMENT PLAYERS CLUB AT PRESTANCIA, SARASOTA, FLORIDA

presented by

BusinessWeek



Deloitte Consulting

Delta Air Lines



As flashbulbs popped and music blared, General Motors President G. Richard Wagoner Jr. was beaming. Unveiling a crop of snazzy new concept cars at the Detroit auto show earlier this month, Wagoner's pride was palpable. "I pushed pretty hard for these," he said, momentarily shedding his customary aw-shucks modesty as he showed off three sleek hybrids that combine elements of cars, minivans, and sport-utility vehicles (SUVs). After years of churning out mostly unremarkable cars, GM finally had something to wow the audience. Wagoner couldn't have been happier.

That's not the only reason the athletic, 6-foot, 4-inch Wagoner is pleased. After a roller-coaster year in which GM was pummeled by a 54-day strike and a continuation of its seemingly endless market-share slide, the past few months have brought good news for Detroit's biggest carmaker. Six years of cutting costs and reshaping the way the lumbering giant designs and builds cars—much of it spearheaded by Wagoner, first as GM's chief financial officer and since 1994, as head of its core North American Operations (NAO)—seem to be paying

off. GM has high hopes for its new Chevrolet Silverado and GMC Sierra full-size pickup trucks introduced last fall. And once-sluggish manufacturing operations have succeeded in revving up production to take advantage of the hot market for high-margin light trucks. Flat-out production helped GM's fourth-quarter earnings from operations up a stunning 55%, to \$2.19 billion, as profits in its North American auto operations more than doubled, to \$1.7 billion. And next year should be even better. Analysts now expect GM's operating profits to increase 62%, to \$6 billion.

GIDDY. Behind the scenes, too, GM watchers see cause for optimism. After years of preparation, the company is well ahead with plans this spring to spin off its auto-components group, Delphi Automotive Systems. And even GM's most intractable problem, labor relations, shows signs of mending.

The combination has suddenly turned GM investors giddy, driving the company's shares down from 76 to 40 in the course of last summer's strike, Wall Street has sent the stock up a stunning 89%, to a record high of 89, since GM's IPO in January alone, shares have risen almost 25%. "The



A close-up look at President Rick Wagoner and his strategy for

REVIVING

Cover Story

GM

A man with short brown hair, smiling, is sitting in the back of a red pickup truck. He is wearing a bright blue jacket over a light blue collared shirt. The truck's bed is visible behind him, showing a black plastic liner with a ribbed pattern. The truck's tailgate is down, and the red frame of the truck is visible. The background is dark and out of focus.

GM PROFITS AND
STOCK ARE UP,
AS WAGONER'S
REVAMP PAYS OFF

is telling us that this company is turning the corner," says Morgan Stanley Dean Witter auto analyst Stephen J. Girsky. And GM is likely to create more investor buzz on January 29 when analysts get a sneak peak at future models. Says Seth M. Glickenhau of Glickenhau & Co., a GM stockholder: "Finally, these people are coming out of their Rip Van Winkle sleep."

Investors are now counting on the 45-year-old Wagoner to keep up the momentum. Promoted last fall to president of

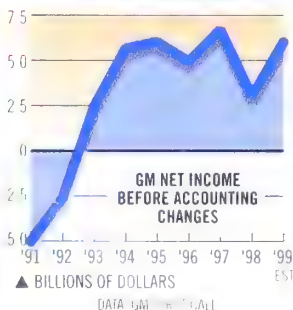
Cover Story

GM's \$130 billion global auto operations—which account for three-quarters of total revenues—Wagoner has played a pivotal role in getting GM back into fighting trim. His slow-but-steady overhaul of the North American unit won him the post—and has made him the leading candidate to succeed John F. Smith Jr., GM's 60-year old chairman and CEO. Smith, who has leaned heavily on Wagoner for years, credits him with doing a "superb" job. "We had to change virtually everything," Smith says. "Some things hadn't been touched since the beginning of time." The results are plain. After an \$86 million loss in 1997, GM's North America auto business posted a \$1.6 billion profit in 1998 and could soar to \$3 billion in 1999. The improving outlook has won Wagoner kudos from the board as well. Says director John G. Smale: "GM under Wagoner has made more money in North America than it had in decades before him."

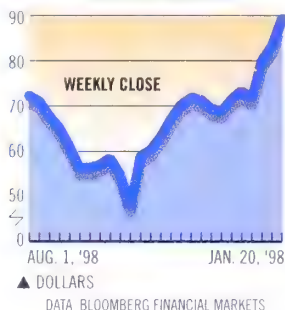
"NO PLAN B." Still, the year ahead will be Wagoner's acid test. The core of Wagoner's strategy for transforming GM has been a thorough renovation of its sagging product lineup. In the past two years, Wagoner has overseen the launch of 20 models—27% of GM's total 75 offerings—the Silverado and Sierra pickups, as well as a host of minivans and midsize cars. And later this year, GM will introduce four new SUVs, which could give another big jolt to profits. Wagoner and Smith had expected the new models to recharge GM's results throughout last year, but the strike cost it much momentum. In 1999, there are no excuses. "This is where the rubber hits the road," says Roy S. Roberts, GM's North American marketing chief. "There is no Plan B."

So how are they doing? Early indications seem promising: Sales of GM's redesigned minivans, such as the Chevy Venture and the Pontiac Montana, have more than doubled since 1995, the last year before redesigned models arrived. Sales for the seven new midsize models are up a more modest 5% since

GM'S PROFITS ARE ON THE MEND...



...AND ITS SHARES ARE SOARING...



1997, but even in this hugely competitive arena, GM has its stars: The Buick Century family sedan gained 38% for the year, while the Chevy Malibu rose 36%.

That's good—but is it good enough? For all his success, Wagoner still faces huge challenges. Overseas, Brazilian and Asian units are wracked by economic woes, even as GM's European operation—long one of the company's most profitable units—struggles to regain its footing. His biggest job,

WAGONER IS DRIVING GM FORWARD



Restored domestic auto profits from a \$982 million loss in 1993 to a \$1.6 billion gain in '98 and an estimated \$3 billion in '99.

► Whittled seven vehicle groups down to one car unit and one truck unit.

► Trimmed its product portfolio from 89 models in 1994 to 75 by dropping such slow sellers as the Chevy Caprice, Buick Roadmaster, Cadillac Fleetwood, and Buick Skylark. Merged GMC division with Pontiac.



► Streamlined product development by appointing one manager to head the vehicle program, replacing a mishmash of chiefs. Merged manufacturing and marketing management.



► Cut manufacturing costs 10%, to an average of 10 hours per vehicle, and reduced the U.S. workforce 14%, to 14,000 employees—all since 1995. Closed two plants and more to shut down



HE STILL FACES MAJOR CHALLENGES

GM's 20-year slide in U.S. market share. Just 29.2% last year, it was 49% in '67.



► Needs to increase GM's sales of trucks, minivans, and SUVs from 47% of total vehicles sales to improve the company's lagging profits per vehicle.

► Must improve marketing efforts to lure younger consumers and more aggressively kill off dated, poorly performing models.

DATA: GENERAL MOTORS CORP., HARBOUR & ASSOCIATES, BUSINESS WEEK

reach a new pact V while spinning zed Delphi parts acing factories is requiring few-



op breakthrough models to halt



though, will be halting GM's decades-long market-share slide in the U.S. In the four years Wagoner headed the NAO's \$94 billion business, GM's share of the U.S. market slipped down a further four percentage points, to 29.2%. The precipitous fall reflects myriad problems that can be boiled down to this: Many people today are turned off by GM cars. "At the end of the day, what really counts is the hardware," says Joseph S. Phillippi, an analyst at Lehman Brothers Inc. "GM is still, in most respects, one generation behind all its competitors."

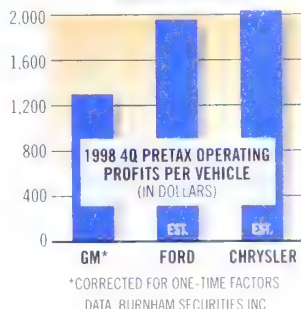
Despite recent efforts to rejuvenate GM's brands and the progress with a smattering of new models, names like Oldsmobile and Buick seem tired. Even worse, GM remains years behind rivals in shifting production to the popular pickup and SUV models. And as car buyers defected in droves, GM has been left with a huge infrastructure of poorly located, aging dealerships and underutilized, outdated factories. Certainly, GM has made huge strides. But unless it generates excitement over new models and coaxes buyers back into its showrooms, GM faces many more years of cutbacks.

MORE DRAMATIC? For all the problems Wagoner has solved, however, he still needs to do more to boost GM's profitability, which continues to lag the competition's. Net profit margins for the first half of 1998—before the strike wiped out earnings—fell back to 2.7%, right where they were when Wagoner took over the NAO in 1994. Meantime, Ford's margins for the period were 6.2% and growing, while Chrysler hit 6.7%. With GM's fourth-quarter margins roaring back to 5.7%, the outlook is brightening as GM snaps back from the effects of the strike. But, as production levels off later this year, it won't be easy to sustain those levels.

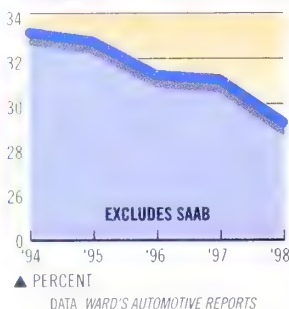
GM's critics say the profit lag points to the need for an even more dramatic remake of GM's product lineup. They argue that Wagoner needs to push harder for exciting new cars that will grab consumers. Volkswagen can point to its cute new Beetle, Ford has its lucrative Expedition SUVs, and Chrysler its pulse-pounding Dodge Viper. But even GM's brand-new Silverado, for which Wagoner has high expectations, is boxy and conservative compared with the competition. Says Merrill Lynch & Co. analyst Nicholas Lobaccaro: "The only way to truly fix this company is through a product renaissance."

With Smith focusing on strategy and trade issues, that job now falls squarely on Wagoner. But little in his background, or his makeup, suggests he's likely to push for more radical change. A consensus-builder who methodically works his way

...BUT ITS RIVALS MAKE MORE MONEY...



...AND U.S. MARKET SHARE IS STILL FALLING...



through complex problems, Wagoner is the latest in a long line of GM insiders to get a shot at fixing GM. The quintessential company man, he has worked for GM since he graduated from Harvard business school in 1977, joining the auto company as an analyst in its New York treasurer's office.

During those 22 years, he has earned a reputation as a demanding boss, one who combines self-deprecating humor with a competitive streak honed during years of cutthroat basketball

games. But he is also a conciliatory team player able to bring warring GM factions together. In a stint as CFO of GM Europe a decade ago, for instance, Wagoner was able to get GM's notoriously turf-conscious Swiss, German, and British units working smoothly together. "He does what's best for the company, not what's best for him personally," says Robert J. Eaton, now DaimlerChrysler co-chairman and the former head of GM

Europe. "He's a very apolitical guy."

He has also come far from his roots in finance.

Cover Story

As he moved quickly through a series of fast-track jobs in the U.S., Canada, and Latin America early in his career, co-workers remember that he gamely learned the ins and outs of every aspect of the business. DaimlerChrysler Senior Vice-President Gary L. Henson, who worked at GM's Vauxhall Motors Ltd. in Britain in the 1980s, recalls being teamed with the young finance whiz at a manufacturing workshop. Their task was to boost efficiency in the "cut-and-sew" area where seat covers were stitched together. He was amazed to see Wagoner plunge into the nitty-gritty of the shop floor. Marvels Henson: "He was up half the night, rearranging sewing machines."

It wasn't until 1991, however, that Wagoner got a chance to prove his mettle on the operations side. Taking over as head of Brazilian operations, he found them in chaos when he arrived in São Paulo. Wagoner showed that he had matured into far more than a number-cruncher. He was among the first in the auto industry to realize that Brazilians were no longer willing to accept decades-old models from Europe and the U.S. Employing the lean manufacturing techniques he had learned in Europe, he quickly built less expensive Brazilian versions of new Opel-designed cars and U.S.-engineered pickup trucks. "Rick got the whole product lineup modernized, well ahead of the competition," says Mark T. Hogan, the GM manager who ran things after Wagoner. "He read the tea leaves early on."

Wagoner's successes didn't go unnoticed back in Detroit, where—on the heels of 1991's \$8 billion domestic auto loss—a boardroom coup had put Smith in charge. Just 16 months after he arrived in São Paulo, Smith named the then 39-year-old Wagoner CFO of the entire corporation. "He did a great job in Europe" and "really charged up that operation" in Brazil, says Smith. "He showed great leadership skills."

Wagoner became a member of the powerful inner circle that Smith brought in to perform triage on GM's battered domestic operations. With losses running \$16 million a day, it was GM's darkest hour. As CFO, Wagoner made important contributions early on. One of his biggest: engineering a \$6 billion contribution of EDS-backed stock to trim the company's gaping \$24 billion pension deficit. He also restored the auto maker's credibility on Wall Street by replacing fancy accounting practices with a more conservative approach.

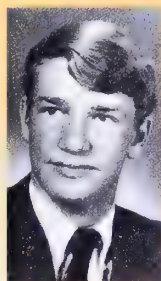
CONCILIATORY. Wagoner's talent as a peacemaker also helped GM weather its crisis. When GM purchasing czar José Ignacio "Inaki" López de Arriortúa bolted for Volkswagen in 1993, for instance, Smith charged Wagoner with making López' \$4 billion in price cuts stick. The challenge: López had left behind a trail of enraged suppliers, who were upset by his tearing up

HOT SELLERS



Chevy Corvette
Buick Century
Saturn 3-Door Coupe

RICK WAGONER



BORN 1953

EDUCATION Duke University, B.A. economics, 1975. Harvard, MBA,

FIRST GM JOB Financial analyst at the New York office.

CURRENT JOB President of GM.

WHAT HIS JOB IS LIKE "Juggling running on a treadmill."

CLAIM TO FAME Fixed GM's ailing Brazilian operation in the early '90s. Later, as CFO of GM, he overhauled company's balance sheet. He also played a pivotal role in lining operations, helping to halt multibillion-dollar

OFFICE DECOR Duke jersey of Detroit Pistons star Chevy pitchman—Grant Hill. A Duke banner signed by factory workers. A size XXL pair of boxer shorts emblazoned with GM slogan "Plan to Win."

FIRST CAR A silver 1973 Camaro purchased with money from summer jobs.

WHAT HE DRIVES NOW 1999 Chevy Suburban

of contracts and other high-handed tactics. Wagoner's conciliatory approach—but gave back few of López's cuts. Instead, he sought cooperation and listened to suppliers. "People felt more like participating voluntarily," recalls Kenneth L. Way, chairman of seatmaker Lear Corp. Smith was impressed by Wagoner's handling of both finance and operations, chasing that he chose Wagoner to succeed him in running the North American auto unit in 1994.

Ever since, Wagoner has been working doggedly to

invent the way to design, build, and sell its cars. A crucial part has been revamping GM's problem-ridden manufacturing techniques, especially all-critical changeover process from one model to a new one. Once an industry laughingstock because of the months it took for model changes, GM's recent launch of notably last year's off of the Grand Sedan and the

HOPEFULS



Chevy Silverado
Cadillac Escalade
Oldsmobile Intrigue

do pickup truck, have been far smoother.

Drawing on his international experience, Wagoner has worked to get more leverage out of GM's global expertise. He ordered his Michigan engineers to begin cooperating with their international counterparts to share platforms, engines, transmissions, and other key components. The move was a GM to make Saturn, Chevy, and Pontiac models from the same chassis it uses to build Opels in Europe. And the number of platforms GM uses globally should drop from 20 to 14 by 2005, holding out the promise of billions of dollars in savings.

At the same time, Wagoner recast GM's archaic product development system along lines favored by Toyota.

MOTIVATIONAL TOOL Awarding Twinkies, which for any job well done. "If you tasted it then tasted it next year, it would taste the same."

ried, and has three sons, ages 15, 13, and 8.

WAGNOUT Sidelines of middle-school football he coaches his eldest son's team.



other carmakers. Doing away with a mishmash of engineers and marketers who used to jostle for control of the truck, Wagoner shifted responsibility for each truck platform to a single executive. Today, these managers oversee a truck's development from the early stages of design to the assembly line. They also have profit-responsibility for their vehicles—another first at GM. The strong results the shift has produced, it's easy to see. Smale counts it as one of Wagoner's biggest accomplishments. The head of the full-size pickup program, for example, has mobilized his team to design the pickup with fewer parts. That, in turn, has enabled factory workers to build Silverados 10% faster than previous models.

MANDS. Indeed, as many of Wagoner's core organizational engineering, and manufacturing reforms come to the new generation of vehicles, nowhere is progress more apparent in GM's improving outlook in the highly profitable truck market. GM recently announced it would crank out 977,000 full-size new Chevy Silverado and GMC Sierra pickups this year, a 1% leap from the 727,000 built in 1998. Even compared to a year with far less labor strife, truck production will be up a healthy 11%. Better still, Wagoner expects premium features, which consumers are willing to pay more to add a full range of profits on the new trucks. All told, Wasserstein & Co. analyst Scott Merlis estimates GM's aftertax truck profits could soar by \$1 billion in 1999.

more where that came from. GM will launch four new truck utilities into the red-hot market for full-size trucks this year: the Chevy and GMC Suburbans, the Tahoe, and the GMC Yukon. With all based on the Silverado chassis, analysts figure the \$6 billion in revenues

from these SUVs will haul in similar profit increases.

Having focused much of his early energy on GM's core manufacturing and design difficulties, Wagoner has more recently turned to another perennial GM problem—spiraling warranty costs. And in the process, the usually gregarious manager has also proved he can be tough when he needs to be. Eighteen months ago, with warranty costs totaling a hefty 5% of net sales, Wagoner summoned senior North American managers to the company's design dome. Reduce warranty costs to 2% by 2001, to save \$1 billion, or look for another job, he ordered. So far, GM has hit its interim targets, says Hogan, who now runs North American small-car operations: "He absolutely demanded it."

Wagoner is also learning how to deal with the thorny labor issues that have beset him and Smith for years. Long a hard-liner, Wagoner's efforts to increase productivity and assign more work to outside suppliers helped provoke 13 strikes, at a cost of more than \$4 billion, over the past three years. As recently as last Memorial Day, Wagoner fueled the fire by ordering dies removed from a Flint factory that was about to start making critical truck parts.

It was a huge and costly mistake. Infuriated workers immediately brought all of GM to a screeching halt in a strike that would ultimately shave \$2 billion off of '98 profits for little gain. "Just add that to the list of the other million things where we probably made the wrong call," Wagoner concedes now.

Since then, however, Wagoner has softened his approach. He recently consulted with top United Auto Workers leaders before naming new labor head Gary Cowger, whose years on the factory floor had earned the union's respect. "They were looking for someone who could work well with the union," says UAW President Stephen P. Yokich. And Wagoner now participates far more frequently in meetings and phone calls with union leaders. "We're opening up the dialogue a lot more," he says.

WAGONER PINS HIS HOPES ON FULL-SIZE PICKUPS LAUNCHED LAST FALL—SUCH AS THE SILVERADO

That sort of cooperation is having an impact. Company and union officials are close to resolving union objections to GM's plans to replace older factories with newer plants that use just half as many workers. As part of the deal, the two sides are hashing out details of GM's proposal to assign work to outside suppliers, who would build entire sections of cars. To gain union support, GM is offering to back UAW efforts to unionize supplier plants. Even so, by unloading fixed costs such as factories and parts inventories to suppliers, Wagoner figures he can cut overall costs well below current levels.

Wagoner is also counting on closer union ties to smooth the way for GM's spin-off of Delphi, its \$28.5 billion parts unit. GM plans a \$1.5 billion initial public offering in early February and expects to divest the remainder of Delphi to its stockholders later this year (page 122). Keeping the peace will be key: Wagoner needs the Delphi spin-off to give another big boost to the efforts to reduce costs. Until now, he has been hampered by GM's obligation to buy Delphi parts, even when outside suppliers were cheaper or could handle more of the assembly task.

It all sounds promising. But will it be enough? Many ex-

perts believe Wagoner has just taken the initial steps in the uphill climb to revive GM. And his accomplishments may simply not be enough, according to some large investors. "The feeling is that these guys are not in a hurry," says Timothy M. Ghiskey, manager of the Dreyfus Fund, a big GM shareholder. "GM has a lot of catching up to do."

Here's why: Compared with the other big auto companies, GM still lags in almost every category. The biggest problem remains weak

Cover Story

profit margins, even though GM's average profits per vehicle skyrocketed in the fourth quarter. Burnham Securities analyst David B. Healy estimates that GM made roughly \$1,300 on each vehicle, corrected for the post-strike buildup and unusually low rebates. Though well above the roughly \$874 GM made in 1998's first quarter, it's still much less than the estimated \$1,872 Ford pulled in or the \$2,266 Chrysler made. The new truck and SUV models, moreover, may not be enough to compensate for the less than stellar performance of GM's extensive car lineup. Overall mid-size car sales dropped 15% last year from 1995, the year before GM began revamping them. And GM's share of that segment slid from 35% to 29%, ac-



cording to *Ward's Automotive Report*. "What have they put out, other than the Corvette, that created any buzz?" asks Wesley R. Brown, an analyst at Nextrend Inc., a Thousand Oaks (Calif.) auto consulting firm. "There's no emotion or passion surrounding any of their vehicles."

Many critics are urging Wagoner to scrap poorly performing models. GM has too many models—and too many facilities to produce them—for all of them to thrive. Indeed, the snazziest new models may simply be cannibalizing GM, rather than snatching share from rivals. Strong selling cars, like the Chevy Malibu or Buick Century, steal sales from older models. Sales of the bread-and-butter Chevy Lumina, for instance, plunged 22% last year, as many Chevy customers switched to the Malibu. And some new models have fizzled, pulling in far fewer sales than the older models they have replaced. Sales of the redesigned Olds Cutlass, at 53,000 last year, are down 59% from the 1995 sales of the Ciera, the car that it replaced.

**SO FAR, THE NEW
PACKAGE-GOODS
BRANDING BROUGHT
IN BY ZARRELLA
HAS NOT PANNED OUT**

Wagoner has made some moves in the right direction to help clear the way for new models, he pulled the plug on GM's three large, rear-wheel-drive cars—the Chevy Caprice, Buick Roadmaster, and Cadillac Fleetwood. It wasn't an easy move. "These are agonizing decisions," he says. But, in the future or risk tying up resources in building poor performers

that could be better employed building trucks and SUVs.

In the meantime, GM's much-battered brand-management efforts to tackle the problem of overabundant look-alike models are not yet paying off. Wagoner has been leaning heavily on L. Zarrella, hired years ago from Ford & Lombard, a marketing child, to produce package-style brand names

DUDS



Cadillac Catera
Chevy Camaro
Chevy Lumina

ment for cars. GM is building 10 midsize models from three platforms, for example, with each model tweaked to appeal to different consumers. The Century, for instance, is an optional bench-seat Buick with a floaty ride, while the Regal, based on the same chassis, has zipper handling and sport seats. The Pontiac Grand Prix has muscle and sport, while the sleeker Olds Intrigue that rolls off the assembly line aims directly at import-driving baby boomers.

The problem facing Zarrella, who succeeded Wagoner as head of the NAO in October, is that consumers aren't buying into the branding strategy. Sales of the Regal and Grand Prix were down 7% in 1998 while Regal, Intrigue and Intrigue sales haven't surpassed pre-brand-management levels. Even stand-out cars that should sell well don't because of the negative baggage of some GM brands. The application of the name, instead of Oldsmobile, it would be the highest best-seller in the category," says ING Barings Funnery analyst Maryann Keller. But GM sold only a disappointing 10,000 Intrigues last year. Says auto consultant John Wollman: "They're proving they can't sell Oldsmobiles, no matter how wonderful they make them."

Indeed, no amount of brand management can overcome a fundamental truth: Many of GM's brands still appeal only to older buyers. Even GM's most aggressive attempt to lure well-heeled baby boomers have backfired badly. At \$35,000, Catera, for instance, was supposed to appeal to a younger tone for GM's flagship division, needs 50,000 to move a paltry 25,000 cars a year. And the average age of a Catera buyer remains 53.

"OLD MAN." Even in those segments where GM is making strong progress, Wagoner needs to do more—and despite recent big gains in truck and SUV production, vehicles still accounted for only 47% of GM's sales in 1998, compared with 71% at Chrysler and 61% at Ford. "The trend went much faster than our people ever expected," concedes Wagoner. Playing catch-up won't be easy. Oldsmobile's carmakers have solid hits with models such as Toyota's Honda Motor Co.'s CR-V, and Subaru's Forester. All the crossovers from Ford and Chrysler will arrive next year, GM's versions—such as the models Wagoner introduced at the auto show—are at least two years away.

For all GM's continuing problems, Wagoner remains supremely self-assured—and some insiders find him confident

The World Fair for Industry, Automation and Innovation



FCB Villiers Technics

A six-day investment
this April can
pay dividends for
years to come.

In today's global economy the success of an industrial enterprise often depends on how rapidly it adapts to change. A showcase for more than 7,500 exhibitors from 70 countries, the HANNOVER FAIR delivers the latest solutions and innovations.

HANNOVER FAIR '99 Exhibition Program

- Factory Automation
- Power Transmission and Control
- Factory Equipment, Tools, Compressed Air Technology
- Subcontracting and Industrial Materials
- Rail Transport Technology
- Research and Technology

HANNOVER FAIR Online

www.hannovermesse.de
www.hfusa.com

Exhibitor and Visitor Services - Special
Presentations - Supporting Events
Travel and Accommodations - Tickets
Cultural Events - Press Service

Deutsche Messe AG
Hannover Germany

Today for ticket and travel information!

Hannover Fairs USA, Inc., 103 Carnegie Center · Princeton, NJ 08540 ·

Tel: (609) 987-1202 · Fax: (609) 987-0092 · E-mail: hannoverfair@hfusa.com



HANNOVER MESSE

APRIL 19 - 24, 1999

complacent. Says one senior GM manager: "Rick is an old young man at GM." He rejects suggestions that he needs to do more to spark sales, because he sees evidence that they are already on the upswing. While he admits GM's lineup could use more flair, Wagoner is confident the organization now has "the passion, intensity, and thoughtfulness" to deliver that.

That hardly sounds like the radical steps many in the

Cover Story

move quickly to kill more car models, close or merge marketing divisions, and rescue standouts like Saturn by giving it more models to sell. "They've got to bite the bullet," says Wolkonowicz. "What's wrong with letting Buick die?" Wagoner doesn't see it that way, though he won't make any promises about keeping divisions or models that don't

auto industry prescribe for GM. The consensus is that Wagoner needs to

earn their way. "Nobody's future is guaranteed,"

Wagoner and his team have declared that 1997 will be the year that the auto maker reverses its 20-year economic market share. For that to happen, many of the models banking on—including a much-anticipated Saturn sedan and a reinvented Chevy Impala—will have to

Wagoner remains confident that he can pull it off. The kind of gut feeling that you're on the right track, he says. If he succeeds over the next couple of years, Wagoner will likely have earned himself the CEO job. If he does, the GM board will be under increasing pressure to look out for the company for its next leader. Although Smale says the move was contemplated when Wagoner was named CEO, the stakes get higher from here on out. With GM's biggest problems—shrinking market share and underperforming divisions—still looming large, Rick Wagoner's toughest job still is

By Kathleen Kerwin, with Joann Muller

DELPHI PUSHES A PEACE PROGRAM

When executives from GM's Delphi Automotive Systems unit hit the road on Jan. 25 to drum up investors for next month's initial public offering, they'll have help from some surprising allies.

Union leaders, including some who forced the shut-down of General Motors Corp.'s auto unit just two years ago, are rallying to the cause of spinning off the parts giant. "I should go out and promote my team," says Harold W. "Nick" Nichols, chief negotiator for 14,500 Delphi workers represented by the International Union of Electronic, Electrical, Salaried, Machine, & Furniture Workers (IUE).

That's a remarkable shift, but Nichols and other union leaders figure that if they can help make Delphi a winner, they'll have more leverage at the bargaining table in the future. Even the more militant United Auto Workers (UAW), with its 46,000 Delphi members, isn't likely to throw a wrench into the spin-off plans. Although top leaders oppose the spin-off, some plant-level union leaders realize that cooperation may be the only way to save their jobs. Says Gary Hill, president of Local 696 at GM's Dayton brake factory, long a trouble spot for GM labor relations: "There's too much riding on the line for 'He said, she said.'"

Now, Chief Executive J. T. Battenberg III is keeping his fingers crossed that labor peace lasts. "We are trying



BRAKES: Any unrest could sabotage the upcoming IPO

to build a future together," he says. Small wonder. With some on Wall Street fearful that a renewed strike threat could scare away investors, bad news on the labor front could depress Delphi's stock. In the first phase of the spin-off, GM hopes to raise more than \$1.5 billion by selling 17.7% of Delphi for 15 to 18 a share. The rest will be divested by late 1999.

MORE DISCLOSURE. To ensure he has plenty of maneuvering room, Battenberg wants to negotiate a national labor agreement separate from the one GM will negotiate with its unions later this summer. Delphi's unions will likely fight that plan, but Battenberg hopes to win them over by disclosing more financial information to them than GM typically would. What they'll see isn't pretty: Delphi reported earnings before restructuring charges of just \$370 million last year, on sales down 9%, to \$28.5 billion.

Battenberg figures that as they

pore over the numbers together, labor leaders will help him push through a cost-cutting program and more flexible work schedules. Ultimately, though, Delphi will also need wages that the union now resists. If all goes according to plan, Battenberg will be able to boost efficiency and make Delphi more competitive with nonunion suppliers.

Merely getting out from under the GM cocoon should go a long way. For starters, Delphi will be better positioned to win business from

auto makers. Delphi now gets 65% of revenues from GM's North American unit and another 16% from GM abroad. Battenberg wants to see North America down to 50%.

Still, Delphi has a rough road ahead. It will be hard pressed to compete against nonunion shops whose workers earn about one-third the pay and benefits of Delphi's unionized employees. With a new contract that guarantees Delphi the right to match the lowest wages in any GM contract until 2002, Delphi will have a couple of years before it truly has to fly on its own. But that, GM will be free to take its business elsewhere. "Delphi has been in the GM cocoon so long, the risks that they'll find the real world are cold out there," says Burnham Securities analyst David B. Healy. "Enough, but it hasn't been too long within GM lately, either."

By Joann Muller in Detroit

COMMENTARY

By Karen Pennar

MAKE CHARTER SCHOOLS ACCOUNTABLE, TOO

ery day, it seems, brings renewed calls for reforming public education, often with a new

President Clinton, in his State Union address, pressed schools more accountable and proposed the limited federal funds that schools receive to student performance. Fourth graders in New State just took a tough new math test, part of a statewide effort to set a new baseline for academic standards.

iv, the charter-school movement, designed to enhance parental involvement among public schools, has received a big boost with the December passage of charter-school legislation in New York State. New York, of strong teacher unions and entrenched school bureaucracies, will

ey test of the charter experiment. First, in seven years ago in New York, these public schools, which receive no state funding, have mushroomed. Today, about 1,100 charter schools operate in New York and the District of Columbia, with total enrollment of about 250,000. Usually the children of parents and local business leaders, charters operate under many regulations and bureaucratic hurdles; teachers may be unionized, for instance, while the day and year may be longer than states specify. With charters, parents choose among publicly financed alternatives—unlike voucher programs, which permit families to attend a private school.

AINS. The charter concept is a new one, and early returns show mixed results. A report from the Center for Education Change at the University of Pennsylvania surveyed a number of charter schools in different states and found that 65 percent experienced academic gains in the first 2 years in various subjects. But the gains alone are important, notes Robert E. Finn Jr., a senior fellow at the Manhattan Institute, since they show that charter schools "serve thousands of kids who have not been well served before."

the even bigger claim of the

charter-school movement—that it can be a model and a spur for changing the nation's 87,000 public schools and the 47 million kids they serve—may be harder to fulfill. For starters, the numbers are still small. New York's legislation authorizes 100 charters to open, and most are likely to have only a couple of hundred students. That's vs. 2.9 million kids in public schools statewide.

Still, advocates say that charter schools, and even the threat of them, are already getting school administrators' attention. Some districts are polling parents about



their top concerns, says Jeanne Allen, president of the Center for Education Reform in Washington, D.C.; a few schools even advertise to keep students. But it's likely to be years before charter schools are pervasive enough to have a substantive impact on the educational system.

Scale is not the only issue. Consistency is also a question—there's simply no such thing as a "typical" charter school. Some schools embrace "back-to-basics" education, complete with uniforms. There are schools for gifted students and schools focusing on the arts or on media literacy. There are Montessori-based schools, and charter schools with grants from companies such as Honeywell and Cox Communications. There are "storefront" schools and even a charter school that, with the help of NASA's Jet Propulsion Laboratory, offers kids specialized science instruction.

There are urban schools and rural schools, schools in poorer districts and in richer ones.

In other words, in the more than 1,000 charter schools around the country, 1,000 different flowers are blooming. This certainly gives parents more choice. But the very variety that marks the appeal of charter schools means it's difficult to evaluate



TEST PUPILS

There are 1,100 charter schools in the U.S., from artsy to science-oriented. But the jury is still out on how well they perform

what exactly is improving academic performance—and hence hard to apply any lessons learned. Was it the school's computers, the pedagogical methods, the vision, or simply the novelty that raised test scores? With charters, we may never know.

That makes boosting accountability—as Clinton has proposed for all public schools—vitally important. After all, this experiment is not only shaking up a hidebound system, but it's also making guinea pigs out of thousands of children. To date, 29 charter schools have been closed for failing to meet minimum state standards. As charters gain in popularity, those that ought rightly to be closed or upgraded should not end up being protected by new political constituencies. Otherwise, the charter-school idea will simply become one more education reform that promised more than it could deliver.

Pennar is a senior writer who follows education policy.

EDITED BY AMY DUNKIN

Your Taxes

NOW, WHAT DID I FORGET?

Before you sign that return, here are 10 things your accountant needs to know

It's Apr. 14, and you've just left your accountant's office. You're feeling lightened of your tax load, ebullient almost. Your accountant did a bang-up job; you're even due a refund. Those irksome auditors can't touch you.

Or can they? Maybe you forgot something. Accountants, after all, are neither omniscient nor psychic. "People change, circumstances change," says Richard Sklar of Weikart Tax Associates in New York. "Unless the client tells us things have changed, we still think of this person as being a wage-earner, getting a W-2, and not having much to deduct. The fact that the client just got a \$75,000 book advance but has never written a book before—you don't think of the client in that way." The message? Financial pitfalls await taxpayers who fail to account for life changes over the past tax year. So, based on tales told by tax professionals, here are some things you need to remember come tax time:

1 An Inheritance

One accountant tells the story of the client whose brother died, bequeathing him a generous U.S. savings bond inheritance. The client cashed the bonds and, on his own return, almost included an income report for \$12,000 in interest. But because the brother died early in the year and had a modest income, the client was advised to put the interest on his late brother's return, instead of his own. The income thus was taxed at a 15% rate instead of the surviving brother's 31%. Pay-

ing close attention to inheritances is also key at tax time because beneficiaries enjoy any tax benefits the estate hasn't used. Say the estate sold securities and took a capital loss. The beneficiaries can claim the loss—plus legal fees—as deductions.

2 Changed Circumstances

Did you switch jobs last year? Job-hunting expenses and costs of relocating more than 50 miles away may be deductible. Did you marry or separate? One financial expert recalled how he learned belatedly that a client with two kids had been separated from her husband for six months. Her tax status improved dramatically when she became a "head of household."

3 Senior Status

At 59½ you can withdraw individual retirement account money without a penalty. At 65, your standard deduction increases. But some elderly clients make their tax preparer play guessing games about their age. That's a mistake: One youthful-looking man failed to mention he was receiving Social Security income. The IRS noticed, and the man paid a stiff penalty. Another taxpayer wasn't deducting his pension under a New York State rule that gives tax-free status to the first \$20,000 of

a senior's pension income. The client paid an extra \$2,000 in state taxes because his accountant never asked his age. Another note about age: Children 14 and over with investment income should file their own returns because their tax rate is likely to be far lower than their parents'.

4 New Dependents

"We have had clients who, when they got their return, said: 'What a munchkin?'" says David Lassus, co-owner of Wherley & Associates in Providence (N.J.) and a CPA firm. Believe it or not, they're going over their financials, people add get events as momentous as a new baby—and a dependent. Keep in mind that dependents are always children: Are you suddenly supporting an out-of-a-brother-in-law?



with you? This is possible when an earned less than the exemption and you ing half his support. scenario: You are with your siblings f caring for an el- at. One couple, both 0s, told their ac- "We have two new s." It turned out eir parents, aged ad moved in. What would ask that of old?

5 Household Help

re a new parent! step: fessing up new nanny. Tax- ed to avoid the 'Zœ Baird, a Clin- e for attorney gen- did not pay Social x for an ni- must ehould such as

nannies and cleaning help on your federal tax forms—and remember to tell your accountant about such workers. You must also remember that there are state compliance rules. "The overwhelming majority of these rules require quarterly compliance," says Alan Goldberg, president of New York-based NannyTax, a payroll tax compliance firm that specializes in household help. Among one's obligations in most states: filing unemployment insurance forms each quarter, along with payment for the tax. On the federal side, there's the W-2 form an employer must give to household employees in January. And while you're at it, don't forget to send that W-2 to the Social Security Administration.

6 Educational Expenses

Many people know the tuition for a job-related course is deductible, but for married couples earning up to \$100,000 a year and individuals earning up to \$50,000, it gets better than that. The new Lifetime Learning Credit awards a 20% tuition reimbursement credit for any course—an accountant studying philosophy, for instance. Then there's the new Hope Scholarship Credit. It gives back the first \$1,000 of college costs, plus half of the next \$1,000.

7 Volunteer Expenses

Do you call the numbers at a church bingo game, as opposed to just playing? Think back: You probably qualify for a deduction. Jim Weikart, senior partner at Weikart Associates, once helped build a school in Guatemala. His lodging and airfare were fully deductible. So is that check you just wrote for the charity dinner you didn't attend.

8 New Business

"Somebody decides she wants to be a novelist," says Weikart's Sklar. "She starts contacting agents, buys a computer, sets up a home office, does research, makes an effort to sell a draft. That person can be presumed to have a business." In fact, that budding novelist has a grace period in which she can deduct business expenses without seeing any income. The rule is you have to show you are likely to make a profit three years out of every five. People who work at second jobs at home—graphic artists, for example—should remember this basic rule.

9 Capital Gains

The Internal Revenue Service will sock it to you should you forget to report the capital gains earned on the sale of stock or appreciated collectibles. Gifts, in particular, are frequently overlooked. "A lot of people think, 'Well, Aunt Nellie gave this stock to me; it's mine,'" says Susan Wilde, income tax supervisor for the De Pere Business Center in De Pere, Wis. But if you sell that stock or if that check from Aunt Nellie exceeds \$10,000, Uncle Sam may take a bite. Ditto for that pension or 401(k) money you withdrew. And municipal bonds? True, their interest is usually free from federal taxes. But if your bond was issued in Florida and you now live in New Jersey, you'll owe taxes to the Garden State.

10 Stock Options

Executives who exercise incentive stock options, then ignore them on their tax returns, do so at their peril. "It's one of those things where you don't get tax documents that say, 'O.K., you have to do something with this,'" notes Lassus. If you exercise an option without selling the stock, and you are subject to the alternative minimum tax, you'll owe tax on the difference between the exercise price and market value. Don't expect your company to pay the tab, either. *Joan Oleck*

TAX SITES

ARMCHAIR MILLIONAIRE

www.armchairmillionaire.com/tax/tips.html

DELOITTE & TOUCHE TAX PLANNING GUIDE

www.dtonline.com/taxguide97/cover.htm

IRS

www.irs.ustreas.gov

THE TAX PROPHET

www.taxprophet.com



Your Taxes

FILE YOUR TAXES -AND SAVE A TREE

For the past few years, taxpayers have been tinkering with electronic filing. Last tax season, about 900,000 folks did their own returns on a personal computer and sent them directly to the Internal Revenue Service electronically. But that was less than 1% of the 100 million-plus individual returns the feds received.

This tax year, the IRS has begun a full-blown push aimed at eventually getting nearly everyone to file paperless returns. If the system works as advertised, the advantages are obvious: no botched arithmetic, no scrambling to find that one missing form, no wild ride to the post office at 11:59 on Apr. 15, none of those nasty IRS missives raising a fuss about that \$5,000 deduction that somehow became \$50,000.

Choking on paper, the agency desperately wants you to file your return electronically. Behind the IRS efficiency push is Congress, which wants 80% of all returns filed that way by 2007.

FIRST TEST. To that end, the coming tax season will be the first test of a truly paperless system. You will, for the first time, be able to file most state and federal returns completely electronically, have your refund credited to your bank account, and pay what you owe by credit card. IRS officials estimate that they will get 30 million paperless returns this year—about one-third of all individual returns. The 39 states offering E-filing expect a boom as well.

It sounds great. And paperless filing will be easier than ever for the vast majority of taxpayers—those who can use 1040 EZ forms or have simple 1040s. But if you have a complex return, roadblocks remain. The IRS can't accept certain forms electronically, and many tax professionals and many of their clients still feel more comfortable filing the old-

fashioned way. What's more, you'll have to pay a premium to put your tax tab on a credit card.

If you have a simple return, filing electronically is a breeze. Indeed, the IRS estimates that 95% of households could file that way this year if they wanted to. It expects nearly 7 million taxpayers to file by phone, using its TeleFile program (800 829-5166). To use

this option, your income must be principally from wages and you must take the standard deduction.

If you have access to a computer, the IRS gives you more options, such as downloading and filing forms on its Web site (www.irs.gov). If you'll still be filing them by hand and returning them to the agency by regular mail, To E-file, you need a commercial product—the IRS has one to let you download forms from its Web site, fill them out, and E-mail it back. "The private sector can do this more efficiently than I can," says Robert Barr, an IRS commissioner.

electronic filing is a major part of the IRS's administrative overhaul. To get your return filed, you'll need to buy software, such as TurboTax (www.turbotax.com) or E-file Now (www.e-filenow.com). If your return is all complicated, you'll need deluxe versions of the software, which have added benefits of federal E-filing. Extra charges are available for around \$30. TurboTax can be downloaded from the Web site for free while TaxCut is purchased only as a shrink-wrap version. 2nd Step Software's Tax T (www.taxact.com) is available for free. You'll have to pay \$9.95 for the deluxe version that offers planning advice. TurboTax and

You can send most state and federal returns electronically, have a refund credited to your account, or pay by credit card



There's an Easier Way to Reach Your SAP Data and the Right Decisions.



SAS® Software is the Real Breakthrough.

You've invested millions in your ERP system. Looking for a way to turn all that data into information—and true competitive advantage? You're ready to expand your business. Seeking a reliable way to evaluate profits, monitor costs, and manage budgets? You're anxious to satisfy customer needs and stakeholder demands. Wanting for one consistent version of the truth—from every corner of your enterprise?

SAS software—from the world's leader in decision support—lets you get down to business with SAS AG's R/3—or any other data.

- ◆ Achieve a rapid return on your ERP investment
- ◆ Enhance profitability through data mining
- ◆ Unleash the business potential of R/3, other ERP systems, or other data sources—using integrated SAS capabilities for CRM, balanced scorecard, quality improvement, and more

SAS software leverages strategic partnerships and is Year 2000 compliant and platform independent.

Visit us at www.sas.com/ersolutions for more information and to request our **free guide:**
Maximizing Return on Your SAP AG R/3 Investment.
Or give us a call at 919.677.8200.

SAS Institute Inc. The Business of Better Decision Making.



SAS is a registered trademark of SAS Institute Inc. Copyright © 1998 by SAS Institute Inc.

The IRS estimates that its error rate on paper returns is a staggering 20%, vs. 0.5% for electronic returns

charge extra for state returns; *TaxCut* lets you download them for free if you purchase its deluxe federal product.

If you'd rather do your return online, *TurboTax* offers a Web product that looks pretty much like the CD-ROM version for \$19.95. But if you earn less than \$20,000, you can prepare and file your return on the *TurboTax* Web site for free. A smaller outfit that offers a pretty good Web product is *SecureTax* (www.securetax.com).

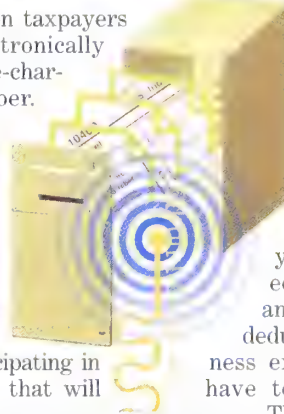
Most Web products use the same now-familiar interview format as their shrink-wrapped cousins.

GET PINNED. In general, online services are cheaper; avoid the occasional aggravation of downloading, and enable you to work on your return from any computer. Software has compensating advantages, though: no nagging Internet backups and more detailed advice. The software approach may also feel more comfortable to taxpayers who fear getting hacked while online. I would stick with software for now, but the Internet products are getting better.

As commercial products improve, the IRS is taking steps to make life easier for E-filers. In the past, you had to send in a form with your written signature even if everything else was digital. This season, the IRS has

mailed 12 million taxpayers who filed electronically last year a five-character ID number.

Just punch it into your electronic return and off you go. Some preparers, including about 350 company-owned offices of H&R Block, are participating in a separate test that will



Block's director for electronic commerce.

For many taxpayers with complicated returns, however, paper is still the only choice. If you file an amended return, request an extension, or deduct employee business expenses, you still have to use snail mail.

The IRS is also limited in the number of capital-gains transactions it can handle electronically. It won't matter to most folks, but if you are a heavy trader and have more than 97 sales or mutual-fund distributions, forget about E-filing.

Until now, most E-filers have been expecting a refund. That's because the IRS will turn their checks around in a week or two, rather than in a couple of months for paper filers. Now, in an effort to attract those who owe Uncle Sam, the IRS is offering new payment options, including credit cards.

If you use *TurboTax* and hold a Discover card, you can authorize a credit-card payment right on the return. The fee: 1.5% of the balance due, plus

TAX). The fee is too—an average of pending on the bill. So why bother with an easy 30-day loan. In any case, you'll get your free miles or whatever premium your card offers.

If you still want to check, the IRS will allow you to file now and designate a future date for electronic funds transfer. Your balance due. As a result, you can see your return in February without authorization to transfer funds from your checking account to the IRS. Just don't forget to cash in your account when the IRS comes calling.

Are there other ways to E-file if you owe Sam? If you are already filing your return on a computer, absolutely. E-filing sharply cut down on mistakes, both yours and the IRS's. Agency officials estimate that their error rate on paper returns is a staggering 20%, compared to 0.5% for electronic. The IRS will also send an E-mail confirmation when you get your return. In a real jam, that's much more helpful than certified mail receipt, which only proves the IRS sent an envelope.

The agency still has a marketing job ahead of it for individuals and tax preparers. But as the tax code becomes more complex, E-filing is the small way the IRS is making everybody's unpleasant task a bit easier. *Howard*

Filing Your Taxes the E-Way

GET THE PROGRAM

Buy a tax-preparation CD-ROM or use the software at a commercial Web site. If you are a 1040 EZ filer, you can find a free program. Otherwise, expect to pay \$10 to \$50 for a federal return, the same for a state return.

PREPARE YOUR RETURN

If you filed electronically last year, you may have gotten a five-digit PIN number from the IRS. If so, just type it in. If not, you'll need to mail a separate signature form to the IRS.

PICK A PAYMENT/REFUND OPTION

You can transfer money electronically to the IRS, pay by credit card (for an extra fee), or request a direct deposit for any refund.

PUSH THE BUTTON

You should receive an E-mail message from the IRS and your state within a day or so confirming receipt of your return.

SOURCE: INTERNAL REVENUE SERVICE, BUSINESS WEEK

allow its customers to select their own PIN number for E-filing. "It's a toe in the water," says Eddie Feinstein,

25¢. E-filers will also be able to pay with most major credit cards, but it will take an extra phone call (800 2-PAY-

TAX TIP Many investors in mutual funds with foreign assets and direct investors in some foreign securities now have to file Form 1116 to claim a tax credit. Most couples with credits of \$600 or less can take them directly on the

BusinessWeek

For more tax strategies,
www.businessweek.com
or AOL: Keyword: W

INTERNET BUSINESS DIRECTORY

See Business Week advertisers on the Web:

.com
.
.
.
ibutors
nds.com
.
om
Century
ancentury.com
Express Financial
anexpress.com/
an Institute
ts
ne.com
suzu Motors Inc.
om
ower Conversion
om
mical
chem.com
ersen
Andersen.com
onsulting
.
/traveler
acific
m
ware
com
com
elli
ic
acific.com
corp.com/
ti Insurance
om
m
IT
oup
.com
om
ortation Inc.
.
soc
m
o.com
uq
m
com
ute
sociates
.
Corporation
are.com

Dale Carnegie Training
www.dale-carnegie.com
Dassault Falcon Jet
www.falconjet.com
DataWorks
www.dataworks.com
Datek Online
www.datek.com
Dell Computer
www.dell.com
Deloitte & Touche
Consulting Group
www.dtcg.com
Delta Air Lines
www.delta-air.com
Diners Club International
www.dinersclub.com
Edison Electric Institute
www.eei.org/enviro/
egift a Cybershop Company
www.egift.com
EMC
www.emc.com
Equitable/AXA
www.equitable.com
Ericsson
www.ericsson.se
E*TRADE
www.etrade.com
Federal Express
www.fedex.com
FlexiInternational Software
www.flexi.com
Ford
www.ford.com/
Fortis, Inc.
www.us.fortis.com
Founders Growth Fund
www.founders.com
France Telecom
www.francetelecom.fr
Fujitsu
www.fujitsu.com
Fujitsu PC Corporation
www.fujitsu-pc.com
General Motors
www.gm.com
General Motors-OnStar
www.onstar.com
GTE
www.gte.com
GTE Internetworking
www.internetworking.gte.com
Hewlett-Packard
www.hp.com
Hilton Hotels & Resorts
www.hilton.com
Hoechst
www.hoechst.com
Honda
www.honda.com

Hyatt Hotels Corporation
www.hyatt.com
IBM
www.ibm.com
Infiniti
www.infiniti-usa.com
Intel
www.intel.com/
Intelliguard
www.iguard.com
International Institute for
Management Development
www.imd.ch/
International Paper
www.ipaper.com
Invesco
www.invesco.com
Iomega
www.iomega.com
JBA International
www.jbaintl.com
J.D. Edwards & Company
www.jdedwards.com
Lawson Software
www.Lawson.com
Lexus
www.lexus.com
Lincoln
www.lincolnvehicles.com
Lotus
www.lotus.com
Lucent Technologies
www.lucent.com
Lufthansa
www.lufthansa-usa.com
MCI
www.mci.com
MITA
www.mita.com
Mercedes-Benz
www.MBUSA.com
Mercury
www.mercuryvehicles.com
Merrill Lynch
www.ml.com/
Microsoft
www.microsoft.com/
Mississippi Department of
Economic & Community
Development
www.mississippi.org
Mitsubishi Electric
www.mitsubishielectric.com
Mitsubishi Electronics
America, Inc./Electronic
Device Group
www.mitsubishichips.com
MOVADO
The Museum Watch
www.movado.com
NTT Corp.
http://info.ntt.co.jp/global
National Business Aviation
Association, Inc.
www.nbaa.org/why
National Computer Systems
Pte Ltd.
www.ncs.com.sg
Nationwide Financial
Services—The BEST of
AMERICA
www.bestofamerica.com

Network Associates
www.nai.com
Netscape
www.netscape.com
Nortel
www.nortel.com
Northrop Grumman
www.northgrum.com
Northwest Airlines
www.nwa.com
Novartis
www.novartis.com
Novell
www.novell.com
Okidata
www.okidata.com
Oracle Corporation
www.oracle.com
Pagenet
www.pagenet.com/2way
Panasonic Personal
Computer Company
www.panasonic.com/
toughbook
PeopleSoft
www.peoplesoft.com
Phillips Petroleum
Corporation
www.phillips66.com
Praxair
www.praxair.com
The Principal Financial
Group
www.principal.com
The Prudential Insurance
Company of America
www.prudential.com
QAD Inc.
www.QAD.com
Quality Inns • Hotels • Suites
www.qualityinn.com
Ricoh Corporation
www.ricoh.com
Roberts Express, Inc.
www.roberts.com
Royal & SunAlliance
www.royalsunalliance.com
SAP Asia
www.sap.com/asia
SAS Institute
www.sas.com/
Savin
www.sales@savin.com
Charles Schwab
www.schwab.com
Seagate
www.seagate.com
Siemens Corporation
www.siemens.com
Siemens Microelectronics
www.smi.siemens.com
Silicon Graphics, Inc.
www.sgi.com/go/visual
SkyTel
www.skytel.com
Southern Company
www.southernco.com

Sprint
www.sprint.com
Star Alliance
www.star-alliance.com
StorageTek
www.storagetek.com
Sun Microsystems
www.sun.com
Sybase
www.sybase.com
Symantec
www.symantec.com
Symbios Logic
www.symbios.com/bw.htm
Tektronix
www.coloratwork.com
Teligent, Inc.
www.teligent.com
TIBCO
www.tibco.com
Toshiba America
Information Systems
www.computers.toshiba.com
Toshiba Telecommunication
Systems Division
www.telecom.toshiba.com
Toyota in America
www.toyota.com/usa
Toyota Motor Corporate
Services
www.toyota.com/usa
Toyota Motors
www.toyota.com
T. Rowe Price
www.troweprice.com
Unisys
www.unisys.com
United Technologies
www.utc.com
UBS
www.ubs.com
UPS
www.ups.com
USPS
www.usps.com
USPS Priority Mail
USPS.supplies.gov
US Web
www.usweb.com
UNET Technologies
www.uu.net
Visio
www.visio.com/standard
Vivendi
www.vivendi.com
Vizio
www.vizio.com
Williams Communications
Group
www.willtales.com
World Mastercard
www.mastercard.com
Xerox
www.xerox.com
Zurich Financial Services
www.zurich.com

BusinessWeek

www.businessweek.com

Your Taxes

A TAB MEANT FOR THE FEW WILL NAB MANY

This spring, the Internal Revenue Service will treat many middle-class taxpayers

as if they were millionaires. Half of the 2 million households expected to run afoul of the alternative minimum tax—designed to prevent the wealthy from sheltering income—earn \$30,000 to \$100,000. By 2007, 8.4 million taxpayers, or 1 in 16, should owe the AMT, which imposes a heavier burden than ordinary income tax by taxing items normally removed from Uncle Sam's reach.

Why has this check on the rich become a middle-class headache? Because while incomes have risen with inflation, the AMT's exemptions of \$45,000 for married couples and \$33,750 for single taxpayers have been the same since 1993. To figure out whether you owe the AMT, calculate your taxable income the regular way. Then use Form 6251 to add back deductions that can't be claimed under the AMT. There are 27 in all, but the ones that trip up most people are hefty state and local taxes and miscellaneous itemized deductions, such as legal fees and unreimbursed business expenses.

YOUR SHARE. Once you've calculated your taxable income, subtract \$45,000 if married and \$33,750 if single. Then multiply the remainder by AMT tax rates: 26% up to \$175,000, and 28% beyond. That's what you would owe under the AMT. Compare that to your regular tax bill and pay whichever is higher.

If you'll be hit with the AMT this April, you have 11

months to make sure it doesn't happen again. Experts suggest avoiding big deductions or lessening their impact by accelerating income. Those strategies run counter to conventional wisdom, which minimizes taxes by accelerating deductions and deferring income. Sometimes, the solution is as easy as asking your boss to pay your January bonus in December.

You can also shift problematic deductions to years when you expect to file a regular 1040. Say you plan to sell stock on retirement next year. Your accountant or tax software warns you that steep capital gains will inflate your state and local tax deductions, pushing you into the AMT. The answer: Sell over several years or sell and pay taxes now—provided your preretirement salary is high enough to shield you from the AMT. Other times, it makes sense to delay paying deductible expenses such as tax and legal bills. You may incur penalties, but if you save more by avoiding the AMT, it's worth it, says Bernard Kent, a tax partner at Price-waterhouseCoopers.

Don't be surprised if your efforts to avoid the AMT fail. About 40% of people filing Form 6251 do so again the next year. A growing num-



What Triggers the AMT...

- State and local tax bills
- Personal exemptions
- Standard deduction
- Miscellaneous itemized deductions
- Interest deduction on second mortgages
- Deductions for medical expenses
- Gains on exercised incentive stock options
- Gains on certain qualified small business stock

...And How to Avoid It

- Prepay or delay state and local tax bills
- Shift problematic deductions into other tax years
- Exercise incentive stock options over two or more years
- Spread capital gains over two or more years
- Increase income by exercising nonqualified options, buying income-producing investments, or taking short-term capital gains

ber are caught by incentive stock options. This increasingly common executive perk can be exercised tax-free—unless you're in the AMT. Although you can use taxes paid on ISOs to offset future regular tax bills, most deductions invalidated by the AMT cannot be reclaimed in later years. To preserve them, delay or accelerate payments into non-AMT years.

Even deductions allowed

by the AMT are better for regular tax years. The AMT isn't "You can look at investment income might not [be] considered," says Morgan tax. Holly Isda stocks for shelter capital gains bonds, real estate trusts, and high-income investments? V since gains at 28%, in your regular tax rate.

TIGHT SP

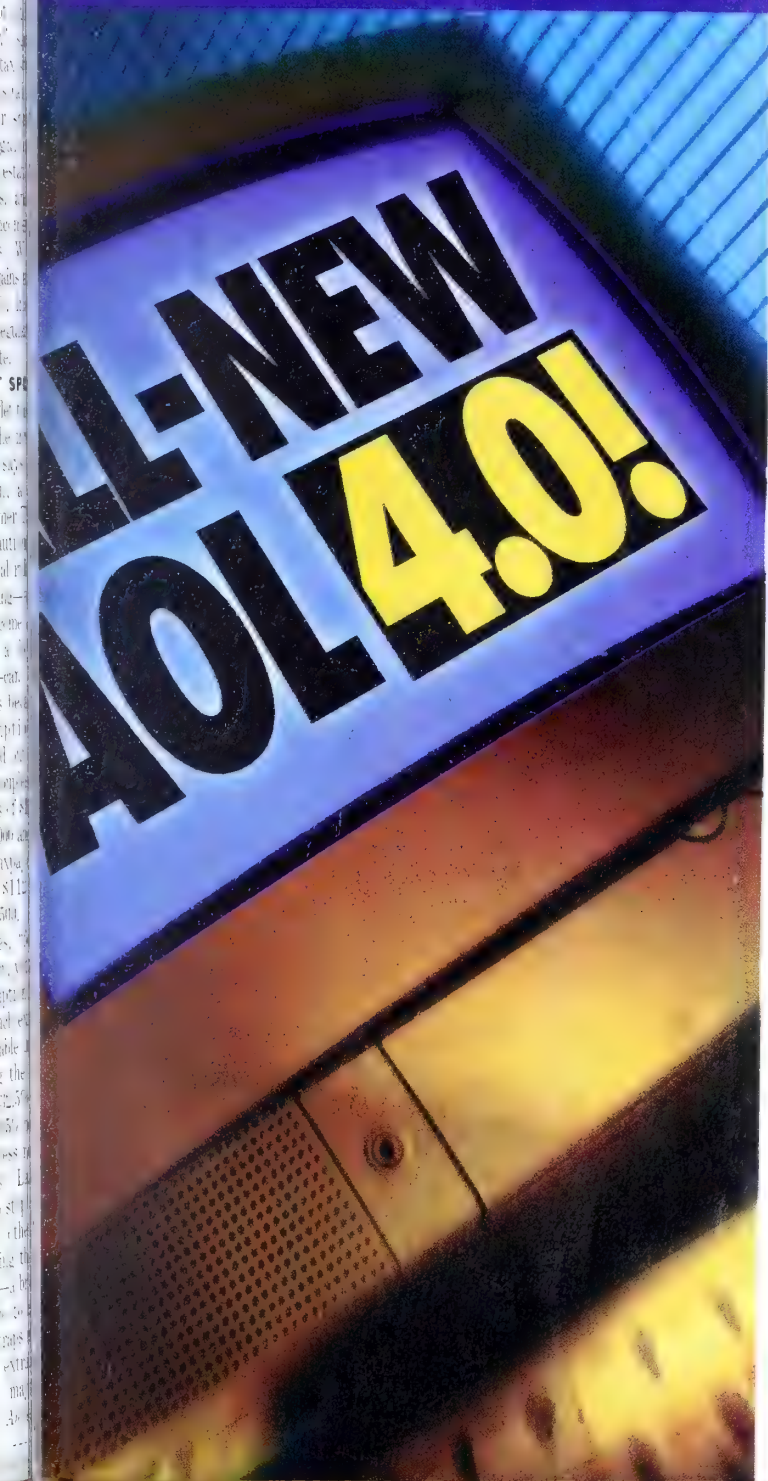
don't "let the wag the dog," says Rubin, a Bessemer bin caution cardinal rule planning—ing income from a rate—can That's been exempt phased out married couple comes of \$330,000 a single taxpayer \$247,500. ranges, "dollar you earn, you

of the exemption says. Thus, each increases taxable \$1.25, raising the tax rate to 32.5% \$175,000 and 35%.

Will Congress middle class? stepped in to stop education, and other from triggering the 1998 returns—a big think is here to as the AMT traps payers, the extra it creates major reform. And

TAX TIP Mercifully, the three-tier capital-gains rate is history. The gain on any assets sold in 1998 will be taxed at 20%—as long as they were held for more than a year

THE EASIEST INTERNET ONLINE SERVICE JUST GOT EASIER!



The all-new version of
America Online is easier, faster
and better than ever. It's a snap to
install, comes with FREE 24-hour
customer service, and connects
you with lots of stuff you
can't find anywhere else.

**TO EXPERIENCE
IT FIRSTHAND, CALL
1-800-4-ONLINE.**



So easy to use,
no wonder it's #1

Availability may be limited, especially during peak times.

ANNOUNCING THE 8TH ANNUAL BUSINESS WEEK

CFO

TURBULENCE

RISK AND REWARD IN

Addressing Today's Concerns. Positioning for Tomorrow's Opportunities.

Being a CFO today is a daunting endeavor. Turmoil in the international markets, demanding shareholder expectations, and shifting priorities at home. Today's CFO has to be innovative, ensuring continued corporate performance whatever the external challenges. And in the current market, discerning value is as important, and as complicated, as creating it.

What better place to address the potential risks and rewards than at THE EIGHTH ANNUAL BUSINESS WEEK FORUM OF CHIEF FINANCIAL OFFICERS. In a focused, retreat setting, you'll gather to exchange ideas and experiences with your fellow CFOs from the nation's largest and most prestigious companies.

These CFO perspectives will be complemented by other critical voices that affect business strategy – the CEO, board members, customers, and shareholders. Together, you'll gain fresh insights as to why turbulence in the global economy is influencing business strategy in corporations across America and how you can determine the right course of action for your company.

Reserve your place now at THE EIGHTH ANNUAL BUSINESS WEEK FORUM OF CHIEF FINANCIAL OFFICERS and make sure today's moves are positioning you to win in tomorrow's market.

BusinessWeek
EXECUTIVE PROGRAMS

Confirmed Speakers



James A. Parke
senior vice-president,
finance and CFO,
GE Capital Services



Thomas J. Merriam
senior vice-president
and CFO, Dell Computer
Corporation



Ann Winblad
partner,
Hummer Winblad
Venture Partners



Richard N. Coe
Boas professor of
economics, Harvard
University
former chairman,
Federal Reserve Bank of Atlanta

Presented in association with
AMERICAN INTERNATIONAL GROUP
IBM GLOBAL FINANCING
KPMG PEAT MARWICK LLP
MILLIMAN & ROBERTSON, INC.
SAS INSTITUTE INC.

MARCH 10-12, 1999
THE PHOENICIAN
SCOTTSDALE, ARIZONA

M OF CHIEF FINANCIAL OFFICERS

HEAD

ECONOMY

ude:



ce-president,
d administration,
om, Inc.



Frank Cotroneo
senior vice-president
and CFO, MasterCard
International



Volpe
-president,
operations,
ublic Group
ies, Inc.



Dorothy Leonard
author, *Wellsprings of Knowledge: Building
and Sustaining the Sources of Innovation*;
William J. Abernathy professor of business
administration, Harvard Business School

ister or for more information...

8-239-6878 • FAX: 212-512-6281

lie_terranova@businessweek.com

MAND: 888-239-6878, Document #70

orship information, contact Mark Flinn
12-512-4773

orum's website for additional speakers and program details

ferences.businessweek.com/1999/cfo/

is limited to Senior Financial Executives of leading
can corporations.

A Division of The McGraw-Hill Companies



"Black & Decker is honored to have been recognized by *Business Week* magazine and IDSA for our achievements in product design. Our rich history of innovative new ideas and user-centered design is made all the more rewarding through our participation in the annual IDEA competition."
—Nolan Archibald, Chair, President and Chief Executive Officer, The Black & Decker Corp.

GOOD

"Winning Industrial Design Excellence Awards affirms our ongoing commitment to product design excellence. Design excellence is central to Microsoft's objective of making personal computers more easy, enjoyable, and accessible for all its hardware products."
—Rick Thompson, Vice President, Hardware Group, Microsoft Corp.

DESIGN

"The growing awareness of 'IDEA' has been enhanced by the dedicated support of *Business Week* magazine. This has facilitated new sharing practices among design leaders that have, in turn, created a strong bond between professional design and business leadership."
—John E. Herlitz, Vice President of Product Design, Chrysler Corp.

PAYS

"Great design, useful innovation, and 'retail shelf space presence' form the essential foundation every new home computer Compaq delivers. Without a focus on world-class design leadership, Compaq could not have achieved the tremendous consumer preference we now enjoy."
—Rod Schrock, Sr. Vice President & General Manager, Consumer Products Group, Compaq Computer Co.

OFF

Volkswagen, Sany Toys, Sunbeam, Samsung, Hewlett-Packard, Sun Microsystems, Motorola, Nike and Chrysler. These companies, all 1998 IDEA winners, show that good design pays off. It pays off in lower costs, better profits, greater customer satisfaction and new product innovation. *Business Week* is again proud to sponsor the Industrial Design Excellence Awards (IDEA) annual competition conducted by the Industrial Designers Society of America (IDSA). The IDEA is accepting entries from Asia, Europe, Latin America, Canada and other foreign

countries for products sold in North America. *Business Week* will feature a major story on the winners in a June, 1999 issue. Designs of home and medical equipment, consumer products, graphic and media, heavy machinery, transportation, packaging, exhibits and more are eligible. The deadline for entry is February 15, 1999. For information, procedures and fees contact: IDSA, 1142 Walker Road, Great Falls, Virginia 22066. Telephone: (703) 759-0100. Fax: (703) 759-7679. E-mail: idsa@erols.com. Web: www.idsa.com

**The 1999
Industrial Design
Excellence
Awards**

Sponsored by *Business Week*

**Presented by the Industrial
Designers Society of America**

For more information, contact: IDSA: Tel: (703) 759-0100. Fax: (703) 759-7679. E-mail: idsa@erols.com. Web: www.idsa.com

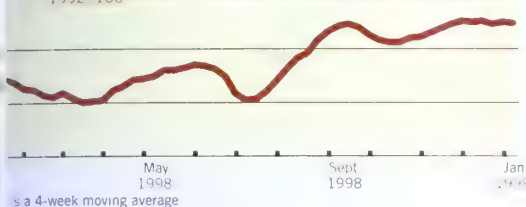
Business Week Index

ACTION INDEX

from last week: 0.1%
from last year: 4.3%

PRODUCTION INDEX

Jan. 9: 142.4
1992: 100



tion index fell in the week ended Jan. 9. The unaveraged index fell to 141.7, from 143.2. After seasonal adjustment, coal plunged 16.2%, with the greatest losses in Alaska, Missouri, and Washington. Rail-freight traffic took a 12.1% dive due to weather conditions. Steel and oil production also fell. Electric-power production was up 1.6%, and lumber was up 6%.

G INDICATORS

	LATEST WEEK	WEEK AGO	YEARLY % CHG
DOW JONES S&P 500 (1/15)	1243.26	1275.09	29.3
BOND YIELD, Aaa (1/14)	6.16%	6.34%	-6.0
M2 (1/4) billions	\$4,433.1	\$4,428.8	9.0
UNEMPLOYMENT (1/8) thous.	352	356	3.8
APPLICATIONS, PURCHASE (1/15)	276.4	254.8	-2.5
APPLICATIONS, REFINANCE (1/15)	1,634.4	1,494.2	-47.5

Sources: Standard & Poor's, Moody's, Federal Reserve, Labor Dept., Mortgage Bankers Assn. (Index: March 16, 1990=100)

INTEREST RATES

	LATEST WEEK	WEEK AGO	YEAR AGO
BOND YIELD (1/19)	4.55%	4.78%	5.52%
LIBOR (1/19) 3-month	4.77	4.79	5.42
LIBOR (1/20) 3-month	4.88	4.91	5.50
LIBOR (1/15) 30-year	6.93	6.89	7.05
LIBOR (1/15) one-year	5.79	5.73	5.72
LIBOR (1/15) 7.75	7.75	7.75	8.50

Sources: Federal Reserve, HSH Associates, Bloomberg Financial Markets

the production indicators are seasonally adjusted in computing the BW index (chart); other components (estimated and not listed) include machinery and defense equipment. 1=Western Wood Products Assn. 2=Southern Forest Products Assn. 3=Free market value NA=Not available r=revised NM=Not meaningful

THE WEEK AHEAD

HOME SALES

Jan. 25, 10 a.m. EST ▶ Existing home sales were seasonally adjusted at an annual rate of 4.9 million in December, says the median economist surveyed by Standard & Poor's MMS, a division of The McGraw-Hill Companies. Resales rose 2.7% from November, to a near-record 4.9 million.

BUDGET

Jan. 25, 2 p.m. EST ▶ The U.S. Treasury is likely to report a surplus of only \$1.5 billion in December, when quarterly reports are made. The expected surplus is smaller than the \$13.6 billion reported for December, 1997.

CONSUMER CONFIDENCE

Tuesday, Jan. 26, 10 a.m. EST ▶ The Conference Board's index of consumer confidence in January was probably little changed from its December reading of 126.1. Although confidence has slipped a little from its expansion highs of the summer, the level remains historically upbeat. In particular, households are still confident about job prospects.

EMPLOYMENT COST INDEX

Thursday, Jan. 28, 8:30 a.m. EST ▶ Compensation costs for civilian workers probably rose 0.9% in the fourth quarter, says the S&P MMS survey, a bit less than the 1% advance in the third quarter. That means

the cost of all wages, salaries, and benefits increased 3.5% for 1998, up slightly from a 3.3% advance in 1997.

DURABLE-GOODS ORDERS

Thursday, Jan. 28, 8:30 a.m. EST ▶ Orders taken by durable goods manufacturers likely increased a small 0.4% in December, following a 0.8% rise in November.

GROSS DOMESTIC PRODUCT

Friday, Jan. 29, 8:30 a.m. EST ▶ The median S&P MMS forecast expects that real gross domestic product grew at an annual rate of 4% in the fourth quarter, faster than the 3.7% pace in the third. Consumer spending and housing powered growth once again.

PRODUCTION INDICATORS

	LATEST WEEK	WEEK AGO	YEARLY % CHG
STEEL (1/16) thous. of net tons	1.865	1,843#	-17.0
AUTOS (1/16) units	115,267	94,571r#	-0.3
TRUCKS (1/16) units	146,619	119,463r#	20.1
ELECTRIC POWER (1/16) millions of kilowatt-hrs.	68,436	70,366#	3.8
CRUDE-OIL REFINING (1/16) thous. of bbl./day	NA	15,171#	NA
COAL (1/9) thous. of net tons	19,351#	18,852	-12.2
LUMBER (1/9) millions of ft.	401.2#	263.5	-10.2
RAIL FREIGHT (1/9) billions of ton-miles	23.6#	21.5	8.9

Sources: American Iron & Steel Institute, Ward's Automotive Reports, Edison Electric Institute, American Petroleum Institute, Energy Dept., WWPAl, SFPAl, Association of American Railroads

PRICES

	LATEST WEEK	WEEK AGO	YEARLY % CHG
GOLD (1/20) \$/troy oz.	286.000	285.450	-1.7
STEEL SCRAP (1/19) #1 heavy, \$/ton	84.00	84.00	-42.3
COPPER (1/15) ¢/lb.	69.6	68.2	-12.3
ALUMINUM (1/15) ¢/lb.	60.0	59.0	-15.8
COTTON (1/15) strict low middling 1-1/16 in., ¢/lb.	57.67	57.57	-7.5
OIL (1/19) \$/bbl.	11.89	12.72	-27.1
CRB FOODSTUFFS (1/19) 1967=100	210.02	207.98	-7.9
CRB RAW INDUSTRIALS (1/19) 1967=100	264.16	263.91	-11.6

Sources: London Wednesday final setting, Chicago market, Metals Week, Memphis market, NYMEX, Commodity Research Bureau

FOREIGN EXCHANGE

	LATEST WEEK	WEEK AGO	YEAR AGO
BRAZILIAN REAL (1/20)	1.5750	1.3200	1.2030
BRITISH POUND (1/20)	1.65	1.65	1.63
CANADIAN DOLLAR (1/20)	1.52	1.53	1.44
EUROPEAN EURO (1/20)	1.1567	1.1669	NA
JAPANESE YEN (1/20)	113.52	113.57	127.07
KOREAN WON (1/20)	1166.5	1174.0	1723.0
MEXICAN PESO (1/20)	10.195	10.600	8.215
TRADE-WEIGHTED DOLLAR INDEX (1/20)	105.6	105.4	110.3

Sources: Major New York banks. Currencies expressed in units per U.S. dollar, except for British pound in dollars. Trade-weighted dollar via J.P. Morgan

This Week, Online

Business Week presents frequent live conferences and chats on America Online—your opportunity to ask questions about timely topics.

BusinessWeek **ONLINE**

Sunday

Big-picture marketing tips for your business from branding and design expert Roger C. Parker, in another BW Enterprise chat. **Jan. 24 9 p.m. EST**

Tuesday

Will '99 be a comeback year for the IPO market and small-cap stocks? Ask Standard & Poor's analyst Mark S. Basham. **Jan. 26 4:30 p.m. EST**

Thursday

Allan S. Roness of JW Genesis Securities had the best forecast of 1998's stock market in BW's survey. So what does he see for '99? **Jan. 28 9 p.m. EST**

AOL keyword: BW Talk

Transcripts of all conferences are available for downloading from the BW Online area on AOL soon after each event.

Index to Companies

This index gives the starting page for a story or feature with a significant reference to a company. Most subsidiaries are indexed under their own names. Companies listed only in tables are not included.

A

ABN Amro (AAN) 48
Adams Golf (ADGO) 8
AirTouch Communications (ATI) 48
Akamai Technologies 67
Albertson's (ABS) 112
Alliance Telecom (ALGX) 34
Alpha Equity Research 84
Amazon.com (AMZN) 38, 84
American Express (AXP) 68
American Insurance Group 12
American International Group 12
America Online (AOL) 72
Amentech (AIT) 48
Amentrade 38
Analytic Enhanced Equity Portfolio (ANEEX) 72
Andersen Worldwide 12
Ashworth 8
AT&T (T) 38
At Home (ATHM) 38

B

Bankers Trust (BT) 60
Barnes & Noble (BKS) 6, 17
Baron Asset (BARAX) 72
Bausch & Lomb (BOL) 114
Bear Stearns (BSC) 48
Bell Atlantic (BEL) 34
Bertelsmann 6
Black & Decker (BDK) 68
BMW 8
Boston Consulting Group 68
Boston Market (BOST) 48
Brouwer & Janachowski 72
BT Alex Brown (BT) 48
BT International Investment Equity 72
Burnham Securities 122

C

Caldera Systems 36
Callaway Golf (ELY) 8
CBS (CBS) 38
Chancellor Media (AMFM) 48
Coca-Cola (KO) 17, 52
Colgate-Palmolive (CL) 47
Comcast (CMCSA) 48
CommScan 38
Compagnie Financière Richemont 112
CompuUSA (CPU) 62
ConAgra (CAG) 68
Conference Board 135
Cox Communications (COX) 123
Cray Research (SGI) 62
Cutler Egg Products 67

D

DaimlerChrysler (DCX) 47, 48, 59, 68, 114
Danone Group 52
Dataquest 36
Datek 38
Deere (DE) 8
Dell Computer (DELL) 36, 72

Delphi Automotive Systems

(GM) 114, 122
Delta Air Lines (DAL) 36, 68
Deutsche Bank 60
Diatide (DITI) 67
DirectV 48
Domini Social Equity Fund (DSEFX) 72
Dreyfus Fund (DREX) 114
Dreyfus Premier Worldwide Growth A (PGROX) 72

E

Egghead (EGGS) 38
Electronic Data Systems (EDS) 114
Enron (ENE) 48
Ernst & Young 36
E*Trade (EGRP) 80
Excite (XCIT) 38, 112
Executive Jet 68

F

Fasciano Funds (FASXC) 72
Fidelity Diversified International (FDIVX) 72
Fidelity Investments 72, 80
Fidelity Magellan Fund (FMAEX) 84
Ford (F) 8, 28, 48, 114
Fortune Brands (FO) 8

G

General Electric (GE) 26, 72
General Motors (GM) 8, 27, 59, 68, 114, 122
Geocities 38
Gillette (G) 47
GKMG Consulting Services 68
Glickenhause 114
Goff Moore Strategic Partners 6
Goldman Sachs 8, 26
Great Atlantic & Pacific Tea (GAP) 112
GTE (GTE) 34

H

Hambrecht & Quist 112
H & R Block (HRB) 126
Hanover Direct (HNV) 112
Hewlett-Packard (HWP) 36, 62, 68
Hilliard Lyons Growth Fund A (HLGRX) 72
Honda (HMC) 114
Honeywell (HON) 123

I

IBM (IBM) 36, 72
Infoseek (SEEK) 38
ING Baring Furan Selz 114
Intel (INTC) 17, 47, 62, 67
Interbake Foods 8
International Data 36, 38
International Microcomputer Software (IMSI) 112
International Strategy & Investment 26

Omega (IOM) 16
Israel Chemicals 60
Israel Corp 60

J

Janus Worldwide 72

K

KPMG 128E6
Kroger (KR) 112

L

LaCie 16
Lassus Wherley 124
Lear (LEA) 114
Legend Airlines 68
Legg Mason Value Primary Shares (LMVX) 72
Legg Mason Wood Walker 34
Lehman Brothers (LEH) 48, 114
Lexmark International (LXK) 16
Lincoln Capital Management 72
Long-Term Capital Management 12
Lotus Development (IBM) 36
Lycos 38

M

Madoff 38
Marketwatch.com 38
Marvel Entertainment Group 8
Maytag (MYG) 47
McDonald's (MCD) 48, 52
McGraw-Hill (MHP) 135
Mercer Management 68
Mendiant Consulting Group 47
Merrill Lynch (MER) 38, 62, 114
MFS Massachusetts Investors Trust 72
MicroDesign Resources 47
Microsoft (MSFT) 36, 38, 62, 72
Microtek International 16
Midwest Express (MEH) 68
Mitsubishi 48
Morgan (J.P.) (JPM) 48
Morgan Stanley Dean Witter (MWD) 38, 52, 112, 114
Morningstar 72, 80, 84

N

NannyTax 124
NBC (GE) 38
Nestlé 52
Netscape Communications (NSCP) 36
New England Consulting Group 47
News Corp. (NWS) 38
New York Life 48
Nextrend 114
Nike (NKE) 47
Nissan (NSANY) 48, 59

O

Oakmark Fund 8
Oracle (ORCL) 36

P

Pacific Life Insurance 62
PaineWebber (PWJ) 48
Panasonic 16
PepsiCo (PEP) 48, 52
PHELPS Dodge (PD) 48
PIMCO Funds 80
Piper Jaffray 47
Pointcast 38

Potash (POT) 60
PricewaterhouseCoopers
PrimeStar 48

Q

Quaker Oats (OAT)

R

Red Hat Software 3
Regan Partners 11
Renaissance Worldwide
Renault 59
RJR Nabisco (RN) 59

S

Safeway (SWY) 112
Salomon Smith Barney 72
SAP Labs 6
SBC Communications
Schering-Plough (S)
Schlumberger 52
Schroders Japan 5
Schwab (Charles) (S)
Scudder Kemper Investment
2nd Story Software
SecureTax 126
Security Research Associates
Silicon Graphics (SGS)
SmithKline Beecham
Sony (SNE) 16, 38,
Sotheby's (BID) 48
Southwest Airlines 3
Sportsline USA 38
Standard & Poor's
Strong Funds 80
Sun Microsystems (SUN)
Super Jock 'n Jill 4

T

Tengelmann Group 2
TeraGen 67
Texas Capital Bancshares
theglobe.com 38
3Com (COMS) 68
Time Warner (TWX)
Toyota (TOYOT) 48
Traveling Software
Ty 8

U

UAL (UAL) 68

V

Value Trend Links
Vanguard 500 Index
(VFINX) 84
Vanguard Group
Vodafone (VOD) 48
Volkswagen 114

W

Wal-Mart Stores (W)
Walt Disney (DIS)
Wasserstein Perella
Waterhouse Securities
Weikart Tax Associates
White (Jack) 80
Wilshire Target Large
Growth Portfolio

Y

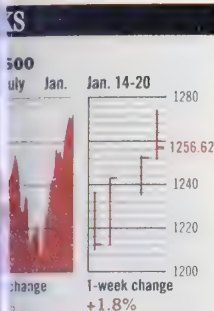
Yahoo! (YHOO) 38

Business Week (ISSN 0007-7135) published weekly, except for one week in January and one in August, by The McGraw-Hill Companies, Inc. Editorial, Circulation, and Advertising Offices: 1221 Avenue of the Americas, New York, N.Y. 10020. U.S. subscriber rate \$54.95/yr. Periodicals postage paid at New York, N.Y., and at additional mailing offices. Postage paid at Montreal, P.Q. Canada Publications Mail Product Sales Agreement No. 246484. Postmaster: Send address changes to BUSINESS WEEK, P.O. Box 430, Hightstown, NJ 08520.

For a free trial diskette including 50 free hours on AOL, call 1-800-641-4848 and mention Business Week.



Investment Figures of the Week



NTARY
decision to let its cur-
ee-fall sent the U.S.
soaring on Jan. 15.
wagered that the move
ive Brazil's economy
ave ripple effects
out the hemisphere.
Jones industrial aver-
ned 220 points, and
zilian market soared
4% in dollar terms.
puter stocks soared
19 and 20, spurred
Excite-At Home Corp.
uch Communications-
mergers. The NASDAQ
te index climbed to
ghs.

U.S. MARKETS

	Latest	% change Week	Year
Dow Jones Industrials	9335.9	-0.1	19.8
NASDAQ Combined Composite	2415.5	4.3	52.1
S&P MidCap 400	382.8	0.0	17.9
S&P SmallCap 600	177.6	0.7	-0.1
S&P SuperComposite 1500	264.7	1.6	27.2

SECTORS

	Latest	% change Week	Year
Bloomberg Information Age	529.1	6.1	75.4
S&P Financials	132.2	0.6	15.7
S&P Utilities	249.5	-1.7	9.3
PSE Technology	488.7	1.3	66.5

FOREIGN MARKETS

	Latest	% change Week	Year
London (FT-SE 100)	6105.6	4.4	15.8
Frankfurt (DAX)	5143.1	4.3	20.1
Tokyo (NIKKEI 225)	14,028.1	4.7	-15.9
Hong Kong (Hang Seng)	10,314.9	0.4	11.6
Toronto (TSE 300)	6712.3	1.2	3.4
Mexico City (IPC)	3775.4	14.4	-18.2

FUNDAMENTALS

	Latest	Week ago	Year ago
S&P 500 Dividend Yield	1.26%	1.27%	1.57%
S&P 500 P/E Ratio (Last 12 mos.)	33.1	32.3	24.3
S&P 500 P/E Ratio (Next 12 mos.)*	24.3	24.1	19.3
First Call Earnings Surprise*	6.93%	15.13%	1.62%

TECHNICAL INDICATORS

	Latest	Week ago	Reading
S&P 500 200-day average	1113.9	1111.3	Positive
Stocks above 200-day average	37.0%	40.0%	Positive
Options: Put/call ratio	0.47	0.39	Negative
Insiders: Vickers Sell/buy ratio	1.39	1.33	Positive

Data: Bloomberg Financial Markets; *First Call Corp.

BEST-PERFORMING GROUPS

	Last month%	Last 12 months%
Broadcasting	30.0	Communications Equip. 132.3
Specialty Appr. Retailers	22.3	Computer Systems 92.2
Invest. Banking/Brkrge.	22.2	Computer Software 88.0
Health-Care Services	20.9	Specialty Appr. Retailers 82.1
Personal Loans	20.0	Automobiles 76.4

WORST-PERFORMING GROUPS

	Last month%	Last 12 months%
Hospital Management	-16.3	Oil & Gas Drilling -55.6
Tobacco	-6.8	Oil-Well Equip. & Svcs. -37.5
Electric Companies	-5.5	Oil Exploration & Prod. -34.8
International Oil	-5.2	Hospital Management -32.3
Specialty Printing	-5.0	Toys -32.2

BLOOMBERG MONEY FLOW ANALYSIS

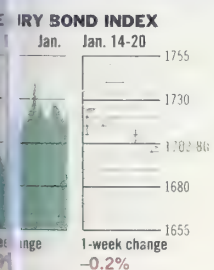
Rebound ahead? Stocks with most significant buying on price weakness

	Price	1-month change
Exxon	71 1/16	-3 3/4
Telebras-ADR	68 1/2	-12 7/8
Procter & Gamble	86 7/16	-19 1/16
American Express	100 1/2	-1 1/4
GTE	67 7/8	-1 1/8
Coca-Cola	64 1/8	-1 5/8

Decline ahead? Stocks with most significant selling on price strength

	Price	1-month change
Cisco Sysyems	106 3/8	11 1/16
Microsoft	155 3/8	15 3/16
MCI WorldCom	77 1/4	6 9/16
Intel	139 3/8	16 1/16
Dell Computer	82 1/8	10 3/16
Sun Microsystems	105 5/16	18 7/16

TEST RATES



KEY RATES

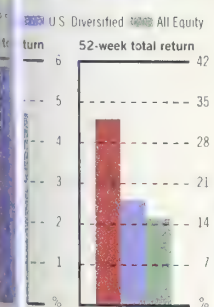
	Latest week%	Week ago%	Year ago%
MONEY MARKET FUNDS	4.69	4.71	5.19
90-DAY TREASURY BILLS	4.37	4.45	5.21
6-MONTH BANK CDS	4.38	4.38	5.12
1-YEAR TREASURY BILLS	4.51	4.49	5.31
10-YEAR TREASURY NOTES	4.75	4.74	5.69
30-YEAR TREASURY BONDS	5.17	5.16	5.94
LONG-TERM AA INDUSTRIALS	NA	6.10	6.60
LONG-TERM BBB INDUSTRIALS	NA	6.89	7.01
LONG-TERM AA TELEPHONES	NA	6.33	6.96

BLOOMBERG MUNI YIELD EQUIVALENTS

Taxable equivalent yields on AAA-rated, tax-exempt municipal bonds, assuming a 31% federal tax rate.

	10-yr. bond Latest week	Last week	30-yr. bond Latest week	Last week
GENERAL OBLIGATIONS	4.16%	4.17%	4.90%	4.89%
PERCENT OF TREASURIES	87.67	88.59	94.84	95.28
TAXABLE EQUIVALENT	6.03	6.04	7.10	7.09
INSURED REVENUE BONDS	4.32	4.32	5.18	5.16
PERCENT OF TREASURIES	91.04	91.78	100.21	100.54
TAXABLE EQUIVALENT	6.26	6.26	7.51	7.48

FUND FUND



SOCIAL SECURITY: HERE WE GO AGAIN

Americans have every right to be concerned about Social Security. It is a wildly successful program that has virtually ended poverty for the elderly. But people don't deserve to be scared silly by politicians talking darkly of Social Security's imminent bankruptcy. President Clinton's State of the Union speech opened a debate between Democrats and Republicans over "saving" Social Security. Playing to stereotypes, the Democrats would expand government to do so, the GOP would shrink government by beginning the process of privatizing Social Security to save it. This is a phony conflict over a phony problem and it threatens to throw the highly successful monetary and fiscal policies of the past decade off course. The health of Social Security rests solely on the health of the economy, and policies that increase America's growth rate will necessarily bolster the public retirement system.

Here are the facts. Conventional Washington wisdom holds that Social Security will go bankrupt in 30 years as the baby boomers retire. But this crisis is predicated on the assumption made by Social Security actuaries that the economy will grow by an average of 1.7% over the next three decades. It's a ridiculously low number, well below the 2.2% long-term trend and far below the 3½% rate of the past three years. It assumes a productivity increase of merely 0.7% into the future, instead of the 2% of recent years, and a sharply slowing growth in the labor force. Even accepting the worst-case scenario, starting in 2030, cash flow from payroll taxes will pay for 75% of benefits. Not the end of the world.

SAVING THE SURPLUS

Economic growth will almost certainly beat the official estimates. Simply by growing at the long-term trend rate of 2.2%, an additional \$5 trillion in 1998 dollars is generated in cumulative tax revenues over the next three decades. Revenues from the Social Security tax are already commingled with general revenues, and constitute a major part of the budget surplus. Using future general revenues to finance Social Security solves most of the "crisis."

President Clinton's plan to use a portion of future budget surpluses for Social Security is therefore sound. Federal Reserve Chairman Alan Greenspan said in testimony before Congress that "the notion that the President brought forth last night to effectively keep a very large part of the unified surplus in place in years ahead is something I have supported in years past." By keeping much of the surplus, the government can pay down debt, lower interest rates and, in effect, increase the nation's net savings. The question is how much to devote to Social Security alone.

Clinton is dead wrong in putting policy in a straitjacket by locking up 62% of the surplus for Social Security and tying most of the rest to specific spending programs. Investment in technology, capacity, and worker training is critical

for an information-era economy. So growth may be served by reshaping the tax code to provide great incentives to invest.

As Greenspan testified, the strong U.S. economy now require any significant tax cut. But Washington retain some measure of fiscal flexibility. The U.S. is in the 94th month of the longest peacetime expansion in history and a downturn sometime in the future is inevitable. Lower taxes and easier monetary policy are the two most powerful ways of quickly arresting an economic decline. When the time comes, the GOP proposal to cut marginal rates on the board may make a great deal of sense.

By fostering growth, tax policy can also reduce the dependency ratio—the number of people supported by each active worker. Recent years have shown that tight labor markets draw in men and women who have passed the normal retirement age, people with low skills, unskilled workers, and immigrants. With more people working to pay to support the elderly, the burden becomes that much easier for the nation.

FORGET THE STOCK MARKET

What about the government investing Social Security funds in the stock market, as President Clinton suggested? Wall Street appears to like the idea, and theoretically it has merit in diversifying any portfolio. All pension funds, private and public, do so. But given the partisan politics in Washington, can any thinking person believe that the government would not enter investment policies? "The political considerations which we are all aware... makes it very difficult to try to create some form of direction in the way the funds are invested," says Greenspan. Finally, who, really, is comfortable with the federal government owning large stakes in major U.S. companies? Government investment in the stock market is one bad idea.

Expanding the 401(k) idea to everyone is more reasonable. The Clinton proposal is a start, but not a particularly good one. Giving some people tax money to start and then matching it with more tax money, is a budgetary mess. The U.S. doesn't need yet another IRA, or a Roth IRA. It does need a single, unified, simple 401(k) that would double the top limit on contributions, from \$10,000, to \$20,000. This is what the Administration and Congress should strive for in their efforts to encourage savings.

False dichotomies are dangerous things, especially when choices are presented by political parties motivated more by ideology than facts. Policies that generate strong economic growth will pay for both Social Security and Social Security cuts. Indeed, for Social Security to be made work, economic growth must remain robust. Democrats and Republicans may be furious at each other but, in the end, the programs for Social Security are really joined at the hip.



etail solutions like

management, better
forecasting, better
inventory control, and
better customer service.



solutions such as

management, better
forecasting, better
inventory control, and
better customer service.



ring solutions like

management, better
forecasting, better
inventory control, and
better customer service.



e-business for growing business.

es beyond e-mail

management, better
forecasting, better
inventory control, and
better customer service.



Stop hearing about supply chain management? Get the right product in the right place at the right time." It's no longer theory.

Now you can put what looks good on paper into practice.

Introducing tangible, affordable e-business solutions for growing companies, from IBM.

Customized solutions that can help strengthen your position in your supply chain.

So there's less second-guessing. And more connecting.

Whether you're ready to send your first e-mail or ready for supply chain management (which links inventory, billing and shipping to your customers and suppliers), these solutions work

with what you've got and grow as you grow.

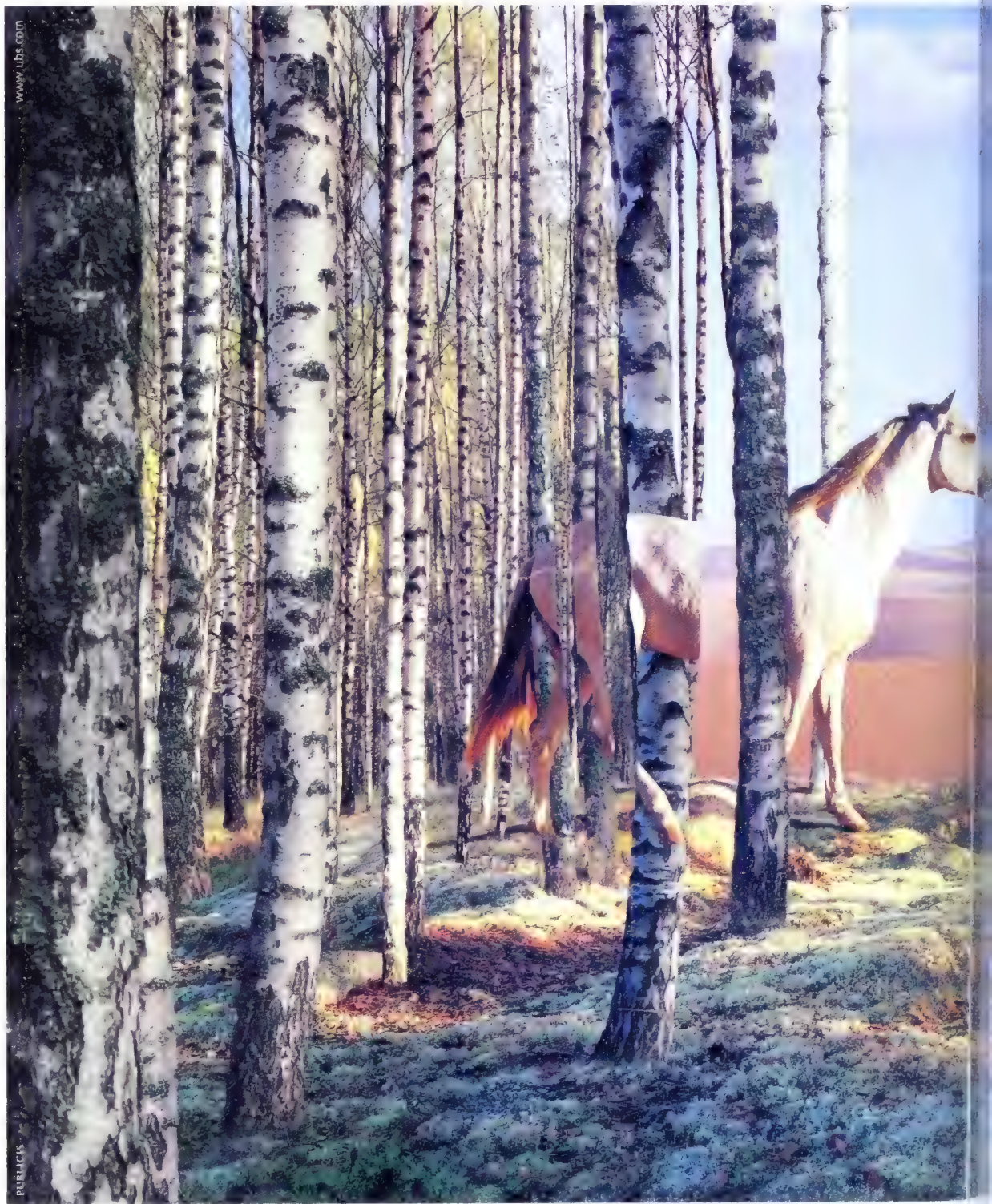
What can you expect? Better forecasting, better inventory control, better customer service. Welcome to e-business.

Visit www.ibm.com/businesscenter or call 1 888 IBM 2992, ext. 11311, for your free Business Assessment CD-ROM, designed to identify ways for your company to integrate its supply chain. We'll also put you in touch with an IBM Business Partner who can tailor the right solution for you.



Solutions for a small planet.

You can't always see what you need – at least not until you
reveal completely new dimensions. And the old ones disappear.
If you want your bank to look beyond the obvious, you need UBS.
everything we do, we try not to be just any bank.



BusinessWeek

February 8, 1999

A PUBLICATION OF THE MCGRAW-HILL COMPANIES

\$3.95

WILL IT BE THE ATLANTIC CENTURY?

The 21st Century was supposed to belong to Asia. Now the U.S. and Europe are steadily converging

to form a new Atlantic economy—with vast impact on global growth and business.



PAGE 64

BURLINGAME

JAN 29 1999

LIBRARY

esting

unds

ent

CEO
McGinn's
next act

OS

come the
i-cars



erill

ch

id its
rh



32

94010-4010

BURLINGAME PUBLIC LIBRARY
BURLINGAME CA
480 PRINCE RD

0030
C030
#BXBBGDP***CAR-RT-SORT**
#0602 1058111600#JAN00 T1N
0163

**THE NETWORK AGE
IS ABOUT TO BECOME BIGGER
THAN THE INFORMATION AGE.
ARE YOU READY?**



Information
technology and communi-
cations technology have converged.

⌘ Multimedia (voice, data, video, voice
mail, e-mail, Internet, Intranets) can all move
through the same networks. If you can keep it all
moving quickly and reliably, it can make your company
more productive, and more profitable. ⌘ Which is
where Fujitsu comes in. ⌘ Our ATM switching systems
streamline multimedia content at warp speed across public
networks and enterprise networks. Our Computer
Integration systems put information in your
hands whenever and wherever it's needed. Our high-
speed SONET transmission systems are used by more
telecommunications exchange networks than any other. And no one
has more experience integrating all these technolo-
gies into networking solutions that reduce costs
and increase revenues. ⌘ So when you're
ready to move into the network age,
just remember, Fujitsu is ready
to take you there.



FUJITSU

COMPUTERS, COMMUNICATIONS, MICROELECTRONICS

WE'VE SPENT 15 YEARS
OBSESSING OVER
COLOR PRINTERS, AND
IT STILL FEELS
LIKE THE FIRST TIME.



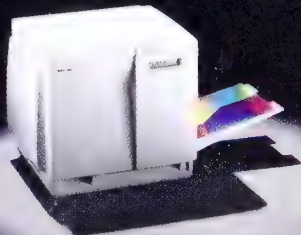
www.colornetwork.com

For us, introducing four brand-new color printers wasn't a solid business idea. It was an act of passion. And as Fortune 500 companies, graphic artists, and scientists have long known, using a Tektronix printer can provoke similar emotions.

FIRST COLOR-UPGRADABLE LASER PRINTER



FIRST \$1,995* NETWORK-READY COLOR LASER PRINTER



FIRST 10 PAGE-PER-MINUTE SOLID INK COLOR PRINTER



FIRST \$4,995* ADOBE POSTSCRIPT® 11"x17" COLOR LASER PRINTER



It's because we've taken the time to get things right. So when you feel strongly about
getting color at work, you know who to call first.

Want to decide which of our full range of color printers is right for you? Call 1-800-835-6100
ext. 5-1582, or visit us at www.coloratwork.com

*and U.S. selling prices; similar prices may vary. © 1999 Tektronix, Inc. Tektronix is a registered trademark of Tektronix, Inc.

COVER STORY

THE ATLANTIC CENTURY?

Suddenly, Europe and America look as if they may dominate the world economy for decades

page 64

BusinessWeek

FEBRUARY 8, 1999



SET TO CLICK
Together, Lucent and Ascend aim "to lead the networking revolution" page 111



BRAIN STORM
Repairing damage from Alzheimer's and other diseases page 111

Cover Story

64 THE ATLANTIC CENTURY?

The U.S. and Europe are once again the twin drivers of the world economy. And with the advent of the euro, pension investing, deregulation, a software and telecom boom, and business-school management styles, Europe is in fact looking more and more like America's twin. The upshot? The two blocs are bursting with market opportunities, with or without Asia

68 EUROPE RISING

The euro is just the latest sign of the Continent's remarkable turnaround

72 FIGHTING TO SURVIVE

With Western capital fleeing, emerging nations face a long siege

News: Analysis & Commentary

34 SO MUCH FOR THE EARNINGS SLUMP

Despite the gloomy predictions, corporate earnings are up

37 COMMENTARY: THE FED

Greenspan is between the hawks and a hard place

37 HEDGING IN HEDGE FUNDS

Central bankers are recommending credit controls

38 WILL CHINA DEVALUE?

As unemployment climbs, exports drop, and social tensions mount, China is under pressure to devalue

39 GE CAPITAL'S TOKYO TREASURE HUNT

Its \$6.5 billion Japan Leasing deal is just the beginning

40 A SWEDISH TIGER IN FORD'S TANK

Buying Volvo's auto business puts the carmaker within hailing distance of GM

42 COMMENTARY: SOCIAL SECURITY

Back to the drawing board? Politicians are using contradictory projections

46 COMMENTARY: THE OLYMPICS

It's time for Corporate America to seize the torch

46 GM'S BRAND BRAWL

The auto giant tells dealers to stress image over down-and-dirty pricing

50 FORGET THE GAME. WHOSE AD IS ON?

Some of Hollywood's top talent try the art of the Super Bowl pitch

53 IN BUSINESS THIS WEEK

International Business

57 INTERNATIONAL OUTLOOK

Washington makes it hard to help itself

Economic Analysis

23 ECONOMIC VIEWPOINT

Becker: Uncle Sam should step back from Wall Street

26 ECONOMIC TRENDS

The housing boom, CEOs don't affect their pay, the GOP's tax-cut plan

31 BUSINESS OUTLOOK

A tighter link between stock prices complicates

Government

55 WASHINGTON OUTLOOK

A GOP tax cut: There's a way there a way?

The Corporation

58 SOUTHWEST'S NEW DIRECTION

The airline is making losses much to its rivals' consternation

**GREEN
WHEELS**
Carmakers
crank up the
hybrids page 74

MUTUAL FUND SCOREBOARD

How to look
for safe harbors
in funds

page 90



ROGUE ELEPHANT

Does the rule of law
really rule in the
Senate trial? page 60



HAPPY FOURTH
Surprise! Fourth-
quarter earnings beat
the forecasts page 34



LONG VIEW
Southwest isn't
just for short hops
anymore page 58

IS A HOT MEAL?

Southwest fliers, the savings
the sacrifices

affairs

ARY: IMPEACHMENT

s know what the rule of law
the real question is whether
ors do

ament

ARS: THE RACE IS ON

Prius will have plenty of rivals
Japanese auto makers come
'hybrid' cars

DAD IN TOYOTA'S HYBRID

half-gasoline, half-electric car
real-life test

e & Technology

NG THE BRAIN

ll transplants, now being
humans, could soon lead to
ary cures

MENTS TO WATCH

p of reports from this year's
confab of U.S. scientists

Finance

84 BEAR ON THE LOOSE AT MERRILL

Why its investment strategy team, led
by veteran Charles Clough, defies
current Wall Street convention and
favors bonds over stocks

85 INSURING THE BOTTOM LINE

Bold new insurance policies protect
companies against disappointing
financial results

87 VALUING THOSE INTERNET STOCKS

Even at these inflated prices, now may
not be time to bail out of Net stocks.
You just need to know what to look for

88 INSIDE WALL STREET

129 INVESTMENT FIGURES OF THE WEEK

Mutual Fund Scoreboard

90 THE NEW RULE IS 'SAFETY SELLS'

Not all bond funds are created equal.
Here's how to find the ones that are
safest—and that yield the best returns

93 ALPHABETICAL LIST OF FUNDS

Information Technology

22 TECHNOLOGY & YOU

A sharp new breed of search engines

111 LUCENT'S ASCENT

Can this plain-vanilla phone-gear
supplier become the colossus of the
Internet era?

Personal Business

120 COLLECTING: Online auctions

COLLECTING: Surfing for boomerabilia

YOUR MONEY: Stable value funds

FUND WATCH: Brandywine's Friess

Features

6 UP FRONT

12 READERS REPORT

13 CORRECTIONS & CLARIFICATIONS

18 BUSINESS WEEK'S BEST-SELLER LIST

20 BOOKS

127 BUSINESS WEEK INDEX

128 INDEX TO COMPANIES

130 EDITORIALS

BusinessWeek **ONLINE**

www.businessweek.com
America Online: Keyword: BW

Up Front

EDITED BY ROBERT McNATT

I-WAY PATROL

A BULL IN THE ONLINE SHOP?

THE CONVENTIONAL WISDOM is that Merrill Lynch isn't interested in online brokering. After all, John Steffens, the Merrill vice-chairman who runs its 15,000-broker network, has voiced concerns that Internet investing can be risky for average investors. But Merrill must be unnerved by the success of rival Charles Schwab's online services, which pushed Schwab's market capitalization ahead of its own last year. Schwab's market cap is now \$27.4 billion, vs. Merrill's \$25.6 billion. So Merrill may be changing its view.

The evidence: Steffens



spent a week in late January in Silicon Valley. He and a team of Merrill staffers were given a grand tour by Verner Keenan, a San Francisco-based technology consultant. Keenan declined to comment on the tour, but sources familiar with the trip say

Steffens met with top Silicon Valley chief executives and venture capitalists. That has given rise to speculation in financial circles that Merrill wants to become a player in the booming Internet financial-services arena. Says one banker: "He's definitely moved his center of gravity to recognize this is more real than he previously acknowledged." Merrill declined to comment. *Heather Green and Leah Nathans Spira*

BUSINESS BATTLEFIELDS

QUID PRO QUO? NAH, COULDN'T BE



COINCIDENCE OR not? After dropping out of the group of states supporting the feds' antitrust suit against Microsoft on Dec. 7, South Carolina is dangling a package of tax breaks to lure a Microsoft facility away from Charlotte, N.C.

South Carolina Attorney General Charlie Condon's surprise withdrawal from the 20-

state coalition was a public relations coup for Bill Gates & Co. Condon cited the proposed America Online-Net-scape deal as proof of high-tech competition.

Competition is evidently afoot for new business in the Carolinas, too. According to a Jan. 22 article in *The Business Journal of Charlotte*, Microsoft has widened its search for a site to house the 900 employees now at its technical-support center in Charlotte to include neighboring York County, S.C. Robb McBurney, a Condon aide, says "we have nothing to do" with the recruitment of Microsoft. Meanwhile, the company says South Carolina first proposed relocating the Charlotte center to York County, though Microsoft, too, dismisses any connection between the dropped lawsuit and its search for new venues. O.K. Sorry to be so suspicious. *Dean Foust*

TALK SHOW "People still need to hear your message: all are God's children; all have fallen short of His glory."

—President Clinton to Pope John Paul II in St. Louis

REGULATION NATION

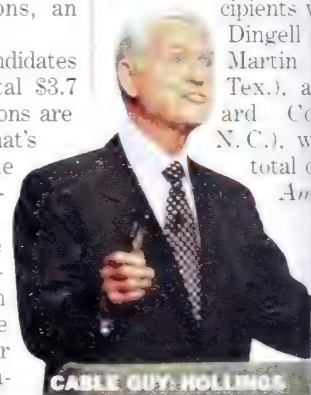
CABLE SHOWS THEM THE MONEY

THE 1998 CONGRESSIONAL races drew lavish contributions from cable-TV operators, which, at first glance, seems odd for an off-year election. But with federal regulation of cable rates set to expire on Mar. 31, cable is doling out cash so politicians don't change their minds. The industry also wants Congress to keep direct-broadcast satellite companies from carrying local stations, an advantage for cable.

Contributions to candidates and their parties total \$3.7 million, though donations are still being counted. That's 25% more than the 1994 midterm campaign, says the Center for Responsive Politics. And the combined \$1.5 million in donations from cable giants Time Warner and Tele-Communica-

tions were double 1994 contributions.

The major parties' biggest largesse about the winner by far is Ernest Hollings of South Carolina, ranking 14th on the Commerce Committee, who got \$137,000 in cable interests. His Democratic counterpart, Senator John McCain, got \$69,999. The top House recipients were Dingell (Mich.) and Martin (Tex.), and Senator Richard Cohen (N.C.), who got a total of \$100,000.



CABLE GUY: HOLLINGS

RANK AND FILE

THE DOCTOR IS IN—A UNION MEETING

THE AMERICAN MEDICAL Assn., its ranks thinning, badly wants to bring young residents and interns into the fold. So it is considering some strong medicine to boost membership. The AMA plans to organize resident physicians into unions.

In March, the AMA's board of directors is expected to vote O.K. the union-organizing plan it began studying a year ago. Although hospital administrators are aghast, the AMA says it could begin organizing as soon as June, with the teaching hospital at Tulane Uni-

versity, where residents are already in a loose association, as an early target.

The AMA also plans to raise new doctors' cut-rate membership dues. With 10% of specialty doctors leaving the AMA represents 10% of all doctors, vs. 50% for the AMA. But membership is being forced on union members, says Dr. Andrew Weil, who sits on the AMA's board.

Even the staunchest unionizers can't envision a doctor-coated mob. "Doctors are the world, and the world is for doctors," says a "guideline" in the AMA's parlance. Improving the membership strikes. A bedside manner counts. *De'A*





A strong case. Just in case.

Rolex is not only handsome, it is extremely
durable, and the key is its trademark Oyster
case, sculpted from 18kt gold or stainless

steel. The case, combined with the
synthetic sapphire crystal and patented
lock winding crown, creates a virtually



impenetrable miniature vault which, for this
Submariner, is pressure-proof to 1,000
feet. Its legendary durability has made
it the standard of excellence among divers,
and is just one reason why this timepiece grows
even more impressive the deeper you delve into it.



Perpetual Submariner Date in 18kt gold and stainless steel with matching Oyster Fliplock bracelet. For the name and location
Rolex Jeweler near you, please call 1-800-36ROLEX. Rolex, , Oyster Perpetual, Submariner, Oyster, Fliplock and Triplock are trademarks. **ROLEX**

Up Front

OVER THERE

'TREAT THAT GOOSE WELL. IT'S DINNER'

AMERICAN GOURMANDS ARE happy that the U.S. lifted its long-standing ban on imported fresh foie gras last year, citing safer and better food processing in Europe. Now, though, they have a new worry. European animal-rights activists want to ban farmers from housing geese and ducks in small cages and force-feeding them. That's the traditional method used to enlarge the bird's liver, from which foie gras is made. The proposed ban sticks in the craw of traditionalists.

For now, goose lovers have the momentum. A committee of European Commission ani-

mal-welfare experts has already called for a ban on the tiny cages. Outlawing force-feeding may be next. David Wilkins, director of Euro-group for Animal Welfare, is encouraging concerned consumers to avoid foie gras. Economics favors the animal lovers, too. A flood of Eastern European foie gras is leading some EU

farmers to cut force-feeding of the birds from 15 days to 12. Although the cheaper product is more competitive, some question its taste. "The livers we get these days often are too tough," says Bernard Loiseau, chef at La Côte d'Or in Burgundy. So diners may still not get the rich taste they crave. Now that would leave a bad taste in their mouths. *William Echikson*



CORPORATE CULTURE

I AM A CONSULTANT FROM A CHAIN GANG

WHEN IT COMES TO HIRING employees with high ethical standards, companies shouldn't reject ex-cons out of hand. They may even be a better bet than MBAs. After quizzing about 300 prisoners at three unnamed minimum-security prisons, two professors give felons an edge in virtue, compared with MBAs asked identical questions a decade ago. The test, they say, remains relevant.

The discrepancies on some issues were striking, say Shaheen Borna of Ball State University and James Stearns of the Miami University of Ohio. About 73% of MBAs would hire away an employee for knowledge of a rival's trade secrets, a prac-

tice that could get the employer and new hire sued. Only 60% of convicts felt that way. The ex-cons, whose crimes were undisclosed, showed higher loyalty and obedience in some ethically charged situations. And while the MBAs placed shareholders' interests first, the convicts, as a matter of ethics, put customers first.

Borna hopes his findings will affect hiring decisions. "Business managers claim that ex-cons have a different value system, and if you hire them it's going to be a risk," says Borna. Not true, he adds. Maybe even a few ex-cons in the executive suite wouldn't be so bad. *Lorraine Woellert*



CON: Virtuous?

DRAWN & QUARTERED



INK BY THE BARREL

BLACK CULTURE IN BLACK AND WHITE

IT'S TYPICAL THESE DAYS FOR established reference works to come out on CD-ROM. But here's a twist. Microsoft's new encyclopedia of black culture

and history, *Encarta Africana*, published on disk, will have its next incarnation this fall when Perseus Books Group offers a single-volume print version.

The project was spearheaded by Harvard professors Henry Louis Gates and Anthony Appiah and first envisioned by W.E.B. DuBois, another Harvard scholar, in 1908. The idea never came to fruition, but Gates and Appiah started trying again

in the early 1970s, *Encyclopedia Britannica*, then with Random House. Ultimately, *Encarta* was underwritten by including Microsoft's *Perseus*, which in 1997 cost up \$1 million apiece.

Why do a paper with a projected price of \$20 more than the \$69.95 *Encarta* cost? "We've found that there's definitely an orientation," says James Keown, Perseus, that the permanent bound volume

to its appeal for students, even those on a PC. For the public, *Encarta Africana*, sales may be a matter of putting the electronic version before the printed one.



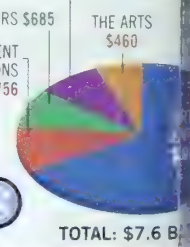
AFRICANA: On CD

THE BIG PICTURE

THE WORD FROM THE SPONSORS Growth of corporate sponsorship of special events and programs is slowing, to an expected 12% this year from 15% last year. The reason: fewer blockbuster events, such as the World Cup.



MEDICAL, EDUCATIONAL AND OTHER SOCIAL CAUSES \$630
FESTIVALS AND FAIRS \$685
ENTERTAINMENT ATTRACTIONS \$756



FOOTNOTES Revenue of top 25 U.S. recruitment firms in 1988: \$325 million; in 1998: \$1 billion

I N T R O D U C I N G

HUGHES

A FAMILIAR NAME WITH A BRAND NEW FOCUS.



We're focused on what we do best. For over

35 years we've been pioneers in the field of satellite

communications. We've led the way in satellite systems.

Developed state-of-the-art satellite and wireless

services. And revolutionized digital satellite television

with DIRECTV. It's no wonder we're called the world

leader. If anyone can make it happen, we can.

HUGHES. WE MAKE IT HAPPEN.

www.hughes.com



YOU'RE PSYCHED ABOUT THE FUTURE.

YOU'RE FULL OF NEW IDEAS.

YOU'RE LOOKING TO START A BUSINESS.

You're the one on the right.

They say retirement means the end of your working years.

We say plan well — so you can redefine retirement any time and any way you want. For many, it will be a bridge to a second career. A new business. Or a true labor of love. At PaineWebber, we know that different ways of thinking about retirement also mean different ways of helping you plan for it. A PaineWebber Investment Executive can help you find your own path through the multitude of investment choices that are out there today. With advice tailored to your individual goals and needs, as well as your own personal timeline. When you know that retirement could lead you to the best job description of all — doing what you've always wanted to do —

You'll say

Thank you **PaineWebber®**

In consultation with a PaineWebber Investment Executive, call 1-888-PWJ-2001, Ext. 30, or visit our web site at www.painewebber.com

EDITOR-IN-CHIEF: Stephen B. Shepard
MANAGING EDITOR: Mark Morrison
CHIEF ECONOMIST: William Wolman
ASSISTANT MANAGING EDITORS:
 Robert J. Dowling, G. David Wallace
ART DIRECTOR: Malcolm Frouman
CHIEF OF CORRESPONDENTS: James E. Ellis
SENIOR EDITORS: Bob Arnold (New Media), Frank J. Comes, William Galsgall, Rick Green (Enterprise), Geoff Lewis, Paul Raeburn, Kathy Rebello, Jane A. Sasseen, Ciro Scotti, Lee Walczak (Washington), Elizabeth Weiner, Chris Welles, Seymour Zucker
EDITORIAL PAGE EDITOR: Bruce Nussbaum
SENIOR WRITERS: Robert Barker, Anthony Bianco, John A. Byrne, Jeffrey M. Laderman, Gene G. Marcial, Karen Pennar, Otis Port, Gary Weiss
ECONOMICS: James C. Cooper (Sr. Economist/Bus. Outlook ed.), Kathleen Madigan, Michael J. Mandel (Economics ed.), Peter Coy, Gene Koretz (Trends ed.), Christopher Farrell (Contributing ed.)
INTERNATIONAL: Christopher Power (Asian Edition ed.); Rose Brady (European Edition ed.); Duane E. Anderson, Pete Engardio, Joan Warner (Sr. news eds.); John Templeman (Political affairs); Sheri Prasso (Asia); John Pearson (Latin America)
ASSOCIATE EDITORS: Catherine Arnt, Aaron Bernstein, Dan Beckue, Amy Dunkin, Neil Gross, Kelley Holland, Larry Light, Ira Sager, Leah Nathans Spiro, Fred Strasser, Pat Wechsler
PICTURE EDITOR: Lawrence Lippman
SENIOR ART DIRECTOR: Francesca Messina
DEPARTMENT EDITORS: Books: Hardy Green. **Corporate Finance:** Debra Sparks. **Corporations:** Nanette Byrnes. **Enterprise:** Robin D. Schatz. **Legal Affairs:** Mike France. **Management:** Jennifer Reingold. **Marketing:** Ellen Neuborne. **Media:** Richard Siklos. **Money & Banking:** Gary Silverman. **People:** Eric Schine. **Personal Business:** Edward C. Baig. **Personal Finance:** Todd Guthrie. **Scoreboards:** Frederick F. Jespersen. **Software:** Steve Hamm. **Technology Strategies:** Marcia Stepanek. **Telecommunications:** Peter Elstrom. **Up Front:** Robert McNatt
STAFF EDITORS: Heather Green, Ellen Licking, Joan Oleck, Edith Updike
COPY EDITORS: Prudence Crowther, Harry Maurer (Deputy chiefs); Marc Miller, Jim Taibi (Asst. chiefs); Tim Belknap, Aleta Davies, Jack Robbins, Doug Royalty (Sr.); Giles Blunt, Joseph Mandel, Anne Newman, David Pengilly, Maika Percal, Lourdes Valeriano. **Researchers:** Maria Chapin, Gail Fowler, Aida Rosario, Oluvumambi Shabi
PRODUCTION/COPY EDITORS: Lawrence Dard (Chief), Céline Keating (Deputy chief), Hallberg Hallmundsson, K. Rite, Robert S. Norman, Robert J. Rosenberg, Victoria Rubin
ART: Jay Petrow, Steven Taylor (Deputy dir.); Don Besom, Alice Cheung, Richard Demler, Andrée Kahlmorgen, Christine Silver (Assoc.); Peter Marshutz (Asst.); **Graphics & New Media:** Arthur Eves (Creative dir.); Joan Danaher (Graphics dir.); Bob Doyle (Assoc.); Jaime Beauchamp; Alan Basesden, Lisa Knouse Braman, Alberto Mena, Ray Vella (Illustrators); Eric Hoffmann. **Imaging:** Annette Farrell (Mgr.), Alan Bornzer (Asst.), Leo Nietzer, Joseph Rhames
PHOTO EDITORS: Scott Mlyn (Deputy); Ronnie Weil (Sr.); Michael Hirsch, Anne Murray, Andrew Popper, (Assoc.); Bettina Baudoin, Kathleen Moore (Asst.); M. Margarita Eiroa; Sarah Greenberg Morse (Researcher); Allen Stephens (Researcher/Librarian)
EDITORIAL OPERATIONS: Yvonne F. Rodriguez (Director), Wally Baudin, Nicholas M. White (Mgls.), Karen Butcher, Francisco Cardozo, Thomas R. Dowd, Nancy Gores, Stephen R. Lebrun, Jody A. LoGrasso, Jose L. Martin, Peter K. Nieceberg, Jane M. Perkinson, Laura Reissman, Karen Turk, Ise V. Walton, Barbara Wilhelm, Donald C. Pearson, Guillermo Ortiz
EDITORIAL TECHNOLOGY: Thomas L. Morgan (Director), Christopher Amado, Richard Balestrino, David Bandler, Lawrence Crowe, Beth Higgins, James Kutz, Neil MacLeod, John Navarro, Juan Rodriguez, Marta Skrelja, Mauro Vaisman
BUSINESS WEEK ONLINE: Michael Mercuro (Managing ed.), A. Peter Clem, John A. Dierdorf, John Johnsrud, Dennis K. Berman, Stefani Eads, Nadav Enbar, Paul Eng, Julia Lichtblau, Jeremy Guttner, Diane Young
CORRESPONDENTS: Atlanta: Dean Foust (Mgr.). **Boston:** William C. Symonds (Mgr.), Paul C. Judge, Geoffrey Smith (Mgr.). **Chicago:** Richard A. Melcher (Mgr.), Roger D. Crockett, David Leberhardt, David Oserland, DeAnn Weiner. **Cleveland:** Peter Galuszka (Mgr.). **Connecticut:** Diane Brady (Mgr.). **Dallas:** Wendy Zellner (Mgr.). **Stephanie Anderson** (Deputy). **Detroit:** Kathleen Kerwin (Mgr.), Joann Muller, Keith Naughton. **Los Angeles:** Ronald Grover (Mgr.), Larry Armstrong (Sr. correspondent), Steven V. Brull, Kathleen Morris. **Philadelphia:** Amy Barrett (Mgr.). **Silicon Valley:** Linda Himmelstein (Mgr.), Peter Burrows, Joan O.C. Hamilton, Robert D. Hof, Andy Reinhardt. **Washington:** Owen Ullmann (Sr. writer), Paula Dwyer, Douglas Harbrecht (News eds.), John Carey, Howard Gleckman (Sr. correspondents), Amy Borrus, Stan Crock, Richard S. Dunham, Susan B. Garland, Paul Magnusson, Mike McNamee, Stephen H. Wildstrom (Tech & You), Lorraine Woelert, Catherine Yang. **Beijing:** Peter Roberts (Mgr.). **Bombay:** Manjeet Kripalani (Mgr.). **Frankfurt:** Thane Dexter (Mgr.). **Karen Lowry Miller**. **Hong Kong:** Joyce Barnathan (Mgr.), Mark L. Clifford, Bruce Linhorn. **London:** Stanley Reed (Mgr.), Kerry Capelli, Julia Flynn. **Mexico City:** Geni Smith (Mgr.). **Moscow:** Patricia Kranz (Mgr.). **Paris:** Gail Edmondson (Mgr.), Stephen Baker. **Rome:** John Rossant (Mgr.). **São Paulo:** Ian Katz (Mgr.). **Singapore:** Michael Shari (Mgr.). **Tokyo:** Brian Bremner (Mgr.), Robert Neff (Contributing ed.), Irene M. Kunin, Emily Thornton. **Toronto:** Joseph Weber (Mgr.)
EDITORIAL SERVICES: Broadcasting: Ray Hoffman. **Business Manager:** Barbara Boynton. **Information Services:** Jamie B. Russell (Director), Karen Stevens (Mgr.), Judi Crowe, Susan Cusner, Fred Katzenberg, Robert Roeker, Susann Rutledge, Barbara Silverbush. **Office Manager:** Roselyn Kopit. **Communications:** Robert Pondiscio (Director), Christine Summerson, Amy Zelin. **Readers Report:** Yvette Hernandez. **Reprint Permission:** Janet Gonzalez

THANKS TO ELIZABETH DOLE, THE RED CROSS IS IN THE PINK

I would like to set the record straight about "Red Cross wonder woman?" (Government, Jan. 25). The Red Cross has never been healthier, and 1998 was the best fiscal year in the organization's history, with \$194 million net of expenses to roll into fiscal 1999.

Since 1991, when Elizabeth Dole became president, the Red Cross has raised \$3.4 billion. Public support to the Red Cross, separate from \$650 million of disaster relief and decreased United Way funding, has grown 174%—from \$113 million in 1990 to \$310 million in 1998—which is far more than the 10% increase in public support you reported.

The modernization of Red Cross Blood Services was initiated by Dole in 1991, two years prior to the Food & Drug Administration consent decree, which ratified her "transformation" initiative, placing timelines on the Red Cross and milestones against which to measure progress. Health & Human Services Secretary Donna Shalala and former FDA Commissioner David Kessler hailed the transformation as a success.

It is inaccurate to conclude that blood-banking competition resulted from efforts to recover modernization costs. Hospitals, operating under cost controls imposed by managed care, have spurred competition, to which Red Cross and independent blood centers have responded aggressively. Red Cross expansion has resulted from hospitals' recognition of our state-of-the-art system and demand for our products and services.

Red Cross biomedical operations are financially stable. We have managed our \$1.3 billion biomedical expenses, nearly offsetting revenue for the past two years while continuing to invest in new technologies to keep blood safe. Red Cross absorbed significant business risk to bring to market plasma treated by V.I. Technologies [in Melville, N.Y.]. To date, Red Cross has realized no financial advantage by of-

fering it to the public but remained committed to bringing safer products to market as soon as feasible.

As with any \$2.2 billion corporation, the Red Cross utilizes consultants and seeks board members who can provide needed expertise to the organization. Contrary to your KPMG reference, fees paid to auditors, lawyers, and professionals amount to 5% of compensation, not the 50% you stated. Your allegation that consultant fees were added to Dole's personal compensation is false. While many dynamic individuals have joined our Board of Governors since Dole's tenure, the president of the Red Cross cannot unilaterally appoint board members. Only the Red Cross Board includes eight appointees of the president, can elect the other 42 members.

Elizabeth Dole's tenure brought a transformation of blood services to the best system in the world, a modernization of disaster services, a restructuring of chapters for the first time in Red Cross history to meet local needs, standards of excellence, the creation of highly successful fund-raising programs to replace an almost total depletion of United Way, a new and more efficient field structure, and the initiation of consolidated financial management and the use of technology to modernize the organization's Armed Forces Emergency Services. If BUSINESS WEEK considers such accomplishments as failures, these to be purely image-building, the organization would welcome the same.

Mari M. Gorman
 Chief Operating Officer
 American Red Cross

Editor's note: BUSINESS WEEK's January 25 article was based on confidential information from all sources, including the Red Cross. On consulting fees, BUSINESS WEEK did misstate that consultants' fees were half the total payroll. A new study puts fees at 45% of payroll for two headquarters office units and 10% for the entire organization. Mari M. Gorman serves as a consultant to Elizabeth Dole over a three-year period.

Business Week

A Division of The McGraw-Hill Companies

FEBRUARY 8, 1999 (ISSN 0007-7135)*** 3615

Postmaster: Send address changes to BUSINESS WEEK, P.O. Box 430, Hightstown, N.J. 08520. Periodicals postage paid at New York, N.Y., and at additional mailing offices. Postage paid at Montreal, P.Q. Canada Post International Publications Mail Product Sales Agreement No. 246484.

Registered for GST as The McGraw-Hill Companies. The company is registered in U.S. Patent Office. European Circulation Data Report: 1998-1999. McGraw-Hill Companies.

Office of The McGraw-Hill Companies, Inc., P.O. Box 518, Harold W. McGraw III, President and Chief Executive Officer, Vice President and Chief Financial Officer, Executive Vice President and Chief Financial Officer, Senior Vice President, Treasury Operations, Vantage Information and Media Services.

PHOTOCOPY PERMISSION: Where necessary, permission by the copyright owner for those registered with the Copyright Clearance Center (CCC), 222 Rosewood Drive, Danvers, MA 01923, to photocopy items for internal or personal use, or the internal or personal use of specific clients, is granted by CCC for a fee of \$1.00 per copy of the article herein for the flat fee of \$1.00 per copy of payment to the CCC. Copying for other than personal or internal use without express permission of The McGraw-Hill Companies is prohibited. Address requests for customized bulk rates to: Copyright Clearance Center, P.O. Box 457, Hightstown, N.J. 08520. ISSN 0007-7135/99 \$1.00 PER COPY. PRINTED IN THE U.S.A.

CTIONS & CLARIFICATIONS

er new sidekick for AT&T" (In Business Week, Jan. 18), we mistakenly it the Federal Communications ion approved the AT&T and Telecommunications Inc. merger. It was the ept. that gave the go-ahead.

r, rude, awkward—and brilliant" (ec. 28/Jan. 4)) incorrectly stated e Locke was editor-in-chief of headed *Mademoiselle*.

eth Dole faces serious chal- she tries to gain the Republi- nation for President in 2000. n to having never run for elec- e, Dole's two Cabinet posts exactly high-profile. On the d, Dole has high name recog- d she has shown she can raise unts of money for her causes. takes the more likely path of s the Vice-Presidential candi- George W. Bush or someone might have a shot for the top ht years, when she will be 71 . Whether she runs for Presi- ice-President, Liddy Dole will ng a glass ceiling for Republi- n.

George A. Dean
Southport, Conn.

T /IS

avis is printing in red ink" oration, Jan. 25) is misleading financial health of our compa- e set the record straight on at important points. First, Ziff- more than enough cash flow ts debt obligations. Although revised our bank covenants, companies do, we have never iolation of those covenants. , we believe it is absurd to at the transactions mentioned Ziff-Davis and Softbank were improper or have been harm- f-Davis. These transactions only fully disclosed prior to going public but were a nec- rt of consolidating Ziff-Davis' engths across its many media We are convinced these trans- which brought into Ziff-Davis 4-cable channel focused on the nd related technologies, ZDTV; ater Web site ZDNet; leading ; and our entire European op- were extremely favorable to ny. We are proud of our lead- rms in print, events, TV, and aet and are confident that we

have the resources to continue to build on these platforms for the future.

Timothy C. O'Brien
Chief Financial Officer
Ziff-Davis
New York

WHY WOMEN PROS ARE LAGGING: TRY CHAUVINISM

There are a number of reasons why women's pro sports have not reached the same level of commercial accep-

tance as their counterparts in men's athletics ("Few leagues of their own," Sports Business, Jan. 18). First and foremost, the majority of attendees at sports events are men, with women usually accompanying them as an accommodation. Second, women have only recently become involved substantially in their own athletics, and thus there is not a captive audience of women interested in a particular segment of women's pro sports.

However, there is an even more

©1999 The Williams Companies, Inc.



"This looks like the end of the line, Edna. Time for a move to a more controllable future with those innovators at Williams."

Let's lay it on the line. Only Williams leads in both energy and communications, offering custom solutions like nobody else for companies like yours. Backed by a 90-year-old, \$18-billion name that stands for reliability and innovation. And that's the bottom line.

Williams

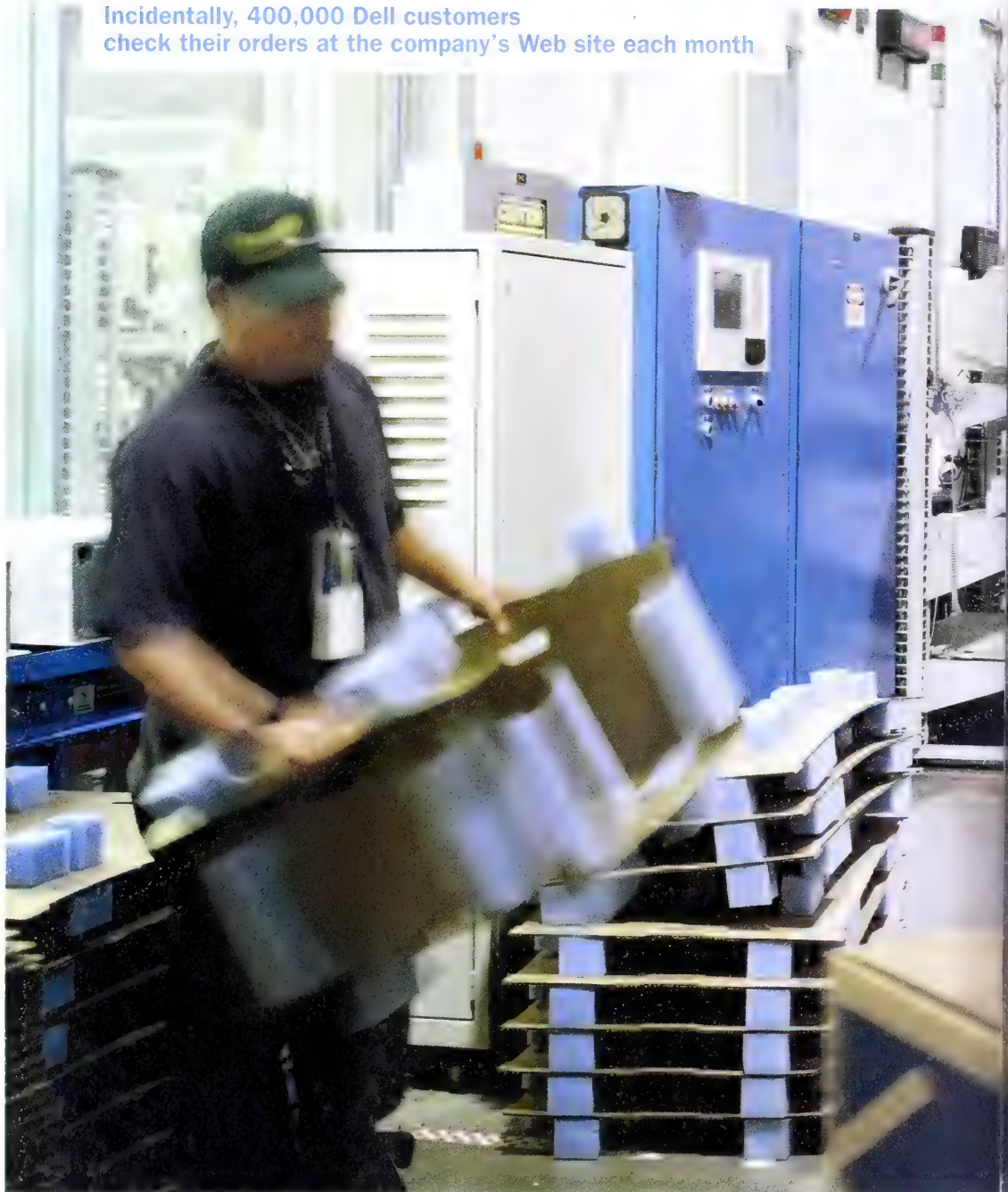
Energy • Communications • Leadership

1-800-WILLIAMS • NYSE: WMB

November 3, 1998, 3:06 a.m.

A Dell customer checks the status of her order at the company's Web site, and finds her answer immediately. Dell gets one happy customer.

Incidentally, 400,000 Dell customers check their orders at the company's Web site each month



© 1998 Dell Computer Corporation. Dell, the Dell logo, and Dell Computer are registered trademarks or trademarks of Dell Computer Corporation in the United States and other countries. Microsoft, the Microsoft logo, Windows, and Windows 95 are registered trademarks or trademarks of Microsoft Corporation in the United States and other countries. All other trademarks are the property of their respective owners.



split second searches
 I inventory status
 millions of books

travel.com
 personal

service for important
 products than their

is a
 way for Starbucks
 to experience
 coffee company.
 and culture of Starbucks.

uilt its commerce solution on a Microsoft® platform of Windows NT® Server and the
 Office® family, because the products scaled easily to meet its growing capacity needs
 s \$2 billion in annual online sales. You, too, can quickly build a commerce solution
 s scalable, flexible platform starting with many of the systems you already have, along
 n industry of partners, to address your specific needs. To find the
 partner who can best help you, or to get the free Digital Nervous
 y m: Commerce Solutions CD, visit www.microsoft.com/dns

Microsoft

Where do you want to go today?

Students start business.
Business makes profit.
Students use profits to teach children
about the free market system.
(It's enough to give a capitalist goose bumps.)

The students were from Pittsburg State University, Pittsburg, Kansas. They didn't start one business, but successfully ran six businesses. And the profits they made funded 53 educational programs they developed and actively taught throughout their community.

The students were SIFE team members. SIFE (Students In Free Enterprise) sponsors student teams on more than 500 college campuses. SIFE provides students with what they can't get in a classroom – real life experience, working, living and breathing as entrepreneurs.

Judith Borck, President and CEO of Country Home Bakers, says: "SIFE has renewed my faith in young people. They accomplish so much in a short time and, more importantly, they make a real difference in their communities."

Len Roberts, President of Tandy

Corporation/RadioShack, says: "SIFE creates good salesmanship and teaches the students how to lead – something that is not taught anywhere."

Bob Martin, President and CEO of Wal-Mart International says: "SIFE provides one of the cornerstones for the future of free enterprise. When I look at these students, I see their excitement, entrepreneurial spirit in action – and it's inspiring."

Through SIFE, college students learn to lead by helping others succeed. But for SIFE to grow, your time and expertise as business leaders are needed. We urge you to call the number below and get involved as a SIFE competition judge, donor or guest speaker.

The experience is guaranteed to give you goose bumps.



"Helping people achieve their dreams through free enterprise education." Call 1-800-677-SIFE.

Active Sponsors: IBM, 3M, Decker, GNB, GE, P&G, Reynolds Metals, Durr, Devel, Chrysler, Ford, The McGraw-Hill Cos., plus 400 more of America's leading companies.

Readers Report

ing reason from a chauvinistic it—namely that the only sports that currently attract mbers of male spectators are that demonstrate the femi-women, such as figure skating ancing. It's a sad commentary ulture.

Nelson Marans
Silver Spring, Md.

FINDING US ONLINE

BusinessWeek ONLINE

ext of Business Week, the Business Week ling, and seven years of BW archives are aible on the World Wide Web at:

www.businessweek.com

on America Online at Keyword: BW.
up for BW on AOL, call (800) 641-4848
and mention Business Week.

maven

or computer equipment? Visit Maven, our
omputer Buying Guide, for continuously
ted ratings and price information.
Keyword: Maven on America Online,
or to the World Wide Web at:

www.maven.businessweek.com

JAIL TIME FOR EVERY CRIME? THERE'S ANOTHER WAY

Gary S. Becker makes some valid ob-servations regarding the declining crime rate ("How the U.S. handcuffed the crime rate," Economic Viewpoint, Dec. 28). However, he seems untroubled about the nation's exploding prison pop-ulation of 1.7 million, which, with the possible exception of China, is the world's largest.

While he laments that so many peo-ple must be jailed in order to curb crime, Becker apparently assumes there is no alternative. America's crime problem could be better addressed by sentencing nonviolent offenders to com-munity corrections and drug users to treatment programs via drug courts instead of stuffing them into over-crowded prisons.

Using imprisonment as a one-size-fits-all response to crime is uneconomi-cal and in many cases unjust. Califor-nia's infamous three-strikes law, for example, which imposes a sentence of 29 years to life, is more often applied to petty thieves than to murderers or armed robbers.

Becker should realize that incarcera-

tion is a short-term solution: As long as prisoners are released from prison—and 97% of them eventually will be—America's crime problem is being post-poned, not remedied. We are merely passing the crime and punishment buck to the next generation.

Alex Friedmann
Tiptonville, Tenn.

HOW TO REACH BUSINESS WEEK

LETTERS FOR READERS REPORT

All letters must include an address and daytime and evening phone numbers. We reserve the right to edit letters for clarity and space and to use them in all electronic and print editions.

Mail: Business Week, 1221 Avenue of the Americas, 39th floor, New York, NY 10020

Fax: (212) 512-6458

Internet: bwreader@businessweek.com

America Online: readersbw

SUBSCRIBER SERVICES

For individual subscriptions, corporate subscriptions, renewals, changes or problems, and single copies.

Phone: (800) 635-1200 or (609) 426-7500

Fax: (609) 426-7623

Internet: bwcustsv@businessweek.com

REPRINTS AND COPYRIGHT PERMISSIONS

For custom reprints (minimum order of 1,000) contact (212) 512-3148

For all other permission or reprint inquiries,
Phone: (212) 512-4801

Fax: (212) 512-4938

Internet: www.businessweek.com/reprints/

Don't BURY your head in the SAND

What you need to know NOW to survive the Y2K crisis.

- Steps you can take today to protect yourself and your family.
- What to expect after January 1, 2000.
- An up-to-the-minute briefing by the expert who explains Y2K to Congress!

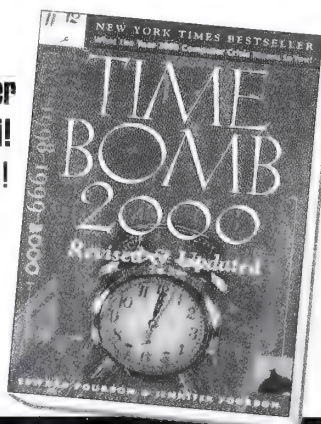
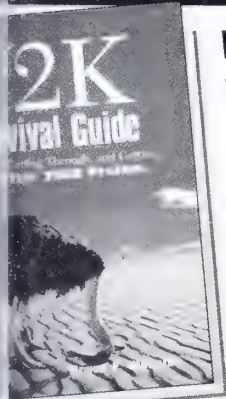
by Bruce F. Webster

©1999, Paper 300pp

0-13-021496-5 \$19.99

**NY Times bestseller
—over 200,000 sold!**

Completely revised and updated!



FAX or MAIL to: **THE MCGRAW-HILL BOOKSTORE**

1221 Ave. of the Americas, NY, NY 10020

- order by PHONE in NYC 212-512-4100
- or by PHONE outside NYC 800-352-3566
- or FAX this coupon 212-512-4105
- or ONLINE at www.bookstore.mcgraw-hill.com

All orders shipped within 10 days.

YES! Please rush me...

- ___ copies of **TIME BOMB 2000**,
Revised & Updated \$19.99
- ___ copies of **Y2K SURVIVAL GUIDE**,
Getting to, Getting Through and Getting
Past the Year 2000 Problem. \$19.99

- ☐ Check or credit card only
- ☐ Visa ☐ AMEX ☐ MC ☐ Discover Exp. Date _____

Account # _____

Name _____

Address _____

Address _____

City _____

State _____ Zip _____

Please add applicable sales tax, plus \$3.50 for
U.S. postage and handling.

The McGraw-Hill Companies

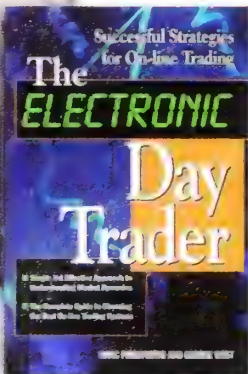
BW299

Prepared for Y2K! from PRENTICE HALL PTR
www.phptr.com/year2000

MCGRAW-HILL BOOKSTORE — Information for Today's Professionals • Visit us at: www.bookstore.mcgraw-hill.com

TITAN

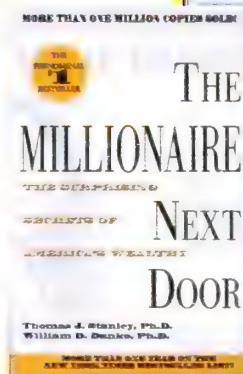
JOHN D. ROCKEFELLER



THE BUSINESS WEEK BEST-SELLERS OF 1998

Manage, reward, and manipulate your co-workers. Resolve disputes. Realize your life's ambition. In the year just past, readers gathered advice on how to accomplish each of these goals from the volumes on BUSINESS WEEK's list of the best-selling business books of 1998.

But above all, last year, readers were interested in money—making it, saving it, and causing it to be fruitful and multiply.



HARDCOVER BUSINESS BOOKS

- 1 THE 9 STEPS TO FINANCIAL FREEDOM** by Suze Orman (Crown • \$23) *Practical and "spiritual" steps for managing money.*
- 2 THE MILLIONAIRE NEXT DOOR** by Thomas J. Stanley, PhD, and William D. Danko, PhD (Longstreet Press • \$22) *The penny-pinchers shall inherit the earth.*
- 3 TITAN** by Ron Chernow (Random House • \$30) *John D. Rockefeller Sr., the devil and angel.*
- 4 THE ROARING 2000s** by Harry S. Dent Jr. (Simon & Schuster • \$25) *Why the good times won't go away.*
- 5 DIE BROKE** by Stephen M. Pollan and Mark Levine (HarperBusiness • \$25) *Forget about the will—and the conventional wisdom, says a financial adviser.*
- 6 THE ELECTRONIC DAY TRADER** by Marc Friedfertig and George West (McGraw-Hill • \$34.95) *Hopping in and out of the market electronically.*
- 7 SELLING THE INVISIBLE** by Harry Beckwith (Warner • \$16) *A collection of bite-size lessons on marketing.*
- 8 WINNING EVERY DAY** by Lou Holtz (HarperBusiness • \$25) *Follow your dream, says South Carolina's new coach.*
- 9 THE JOY OF WORK** by Scott Adams (HarperBusiness • \$22) *Office pranks and plays to fend off the cubicle blues.*
- 10 THE GORILLA GAME** by Geoffrey A. Moore, Paul Johnson, and Tom Kippola (HarperBusiness • \$26) *Spotting high-tech stocks that dominate their market niches.*
- 11 FINANCIAL PEACE** by Dave Ramsey (Viking • \$21.95) *Getting out of debt—for good.*
- 12 WALL STREET MONEY MACHINE** by Wade B. Cook (Lighthouse Publishing • \$24.95) *A former cabdriver's formulas for striking it rich.*
- 13 BUFFETTOLGY** by Mary Buffett and David Clark (Scribner • \$27.50) *An ex-daughter-in-law's take on Buffett's techniques.*
- 14 HOW TO RETIRE RICH** by James O'Shaughnessy (Broadway • \$25) *Number-crunching your way to the golden years.*
- 15 YOU HAVE MORE THAN YOU THINK** by David and Tom Gardner (Simon & Schuster • \$25) *Help for the investment-challenged.*

PAPERBACK BUSINESS BOOKS

- 1 THE SEVEN HABITS OF HIGHLY EFFECTIVE PEOPLE** by Stephen R. Covey (Fireside • \$12) *Habitually popular.*
- 2 THE MILLIONAIRE NEXT DOOR** by Thomas J. Stanley and William D. Danko, PhD (Pocket Books • \$14) *You really need that Lexus.*
- 3 THE MOTLEY FOOL INVESTMENT GUIDE** by David and Tom Gardner (Fireside • \$12) *The online duo puts it on paper.*
- 4 THE 1998 WHAT COLOR IS YOUR PARACHUTE?** by Richard Nelson Bolles (Ten Speed Press • \$16.95) *The enduring job-search bible.*
- 5 BUILT TO LAST** by James C. Collins and Jerry I. Porra (HarperBusiness • \$14) *How 3M, Wal-Mart, Procter & Gamble, and others became standouts.*
- 6 1001 WAYS TO REWARD EMPLOYEES** by Bob Nelson (Warner • \$10.95) *Give them a champagne brunch, a casual-dress day—or plain old cash.*
- 7 THE MOTLEY FOOL INVESTMENT WORKBOOK** by David and Tom Gardner (Fireside • \$12) *"So where do I find stocks and other questions, asked and answered."*
- 8 THE WALL STREET JOURNAL GUIDE TO UNDERSTANDING MONEY AND INVESTING** by Kenneth M. Morris and Alan Siegel (Fireside • \$13.95) *Concise explanations enriched with graphics.*
- 9 GETTING TO YES** by Roger Fisher, William Ury, and Bruce Patton (Penguin • \$11.95) *A Harvard team's step-by-step guide to conflict resolution.*
- 10 INVESTING FOR DUMMIES** by Eric Tyson, MBA (IDG Books • \$19.95) *From stocks to small business—with cartoon illustrations.*
- 11 YOUR MONEY OR YOUR LIFE** by Joe Dominguez and Robin (Penguin • \$11.95) *To achieve financial independence, restructure your life.*
- 12 SUCCESS IS A CHOICE** by Rick Pitino with Bill Reynolds (Broadway • \$13) *Coach says work harder, harder!*
- 13 BARRON'S DICTIONARY OF FINANCE AND INVESTMENT TERMS** by John Downes and Jordan Elliot Goodman (Barron's • \$11.95) *What is an oligopsony anyway?*
- 14 THE ONE MINUTE MANAGER** by Kenneth Blanchard, and Spencer Johnson, M.D. (Berkley • \$11.95) *Three management techniques, conveyed in brief story form.*
- 15 PERSONAL FINANCE FOR DUMMIES** by Eric Tyson (IDG Books • \$19.95) *Lighthearted primer.*

BUSINESS WEEK's Best-Seller List is based on a survey of chain and independent booksellers that carry a broad selection of books on economics, management, sales and marketing, small business, investing, personal finance, and careers. Well over 1,000 retail outlets nationwide are represented. Current rankings are based on a weighted analysis of unit sales, January through December, 1998.

Reviews and more are available on AOL (keyword: BW) or www.businessweek.com (Click on BW Plus!)

SOME OF LIFE'S BEST MOMENTS COME FTD™



*I couldn't send
myself. Hope this
will do until I
get there.*

XO

The FTD® Lasting Romance™ Bouquet

Valentine's Day is February 14. Stop by or call your local
FTD Florist, dial 1-800-SEND-FTD or visit us at ftd.com.



SATISFACTION
GUARANTEED

Books

PLAYING FOR KEEPS

Michael Jordan and the World He Made

By David Halberstam

Random House • 426pp • \$24.95

WHY HIS AIRNESS LEAVES SUCH A VACUUM

Before the Chicago Bulls won their sixth National Basketball Assn. championship, Rick Reilly, the wonderfully acerbic columnist for *Sports Illustrated*, wrote a piece on being up to his keister with Michael Jordan. "Yeah, he's great, he's wonderful, and most American males would gladly undergo a sex-change operation just to have his children," Reilly wrote. "As for me, I'm hoping he gets locked aboard the Mir space station for a few years."

Now that Jordan has made his departure official, the babble about him is really ear-splitting. So certainly there are people besides Reilly who are as sick of Michael as they are of Monica. But there remains a sizable chunk of

the global population who can't get enough of the man who is arguably the greatest basketball player to ever lace up a pair of sneakers and probably the most famous person on earth. That's good news for David Halberstam, whose *Playing for Keeps: Michael Jordan and the World He Made* is hitting bookstore shelves with timing best described as Jordanesque. This is just a coincidence, if you believe Random House. Nevertheless, the book has some of the telltale signs of a rush job. For instance, there are a slew of annoying repetitions, and there's no index.

Still, *Playing for Keeps* may survive as the definitive history of this extraordinary athlete's career. Even though Jordan did not keep an unofficial agree-

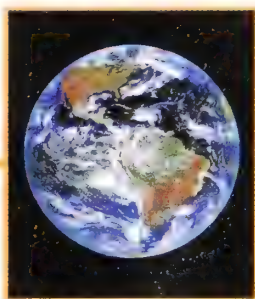
ment to give Halberstam a certain amount of direct access, the author has exhaustively chronicled young Jordan from Laney High School in Winston, N.C., where as a sophomore he failed to make the varsity team, to Game Six of the 1997-98 NBA Finals, where, with only seconds left, he famously sank the winning jump shot.

In fact, the penultimate chapter of Game Six—and, as it turns out, the last chapter for Jordan—is a mea culpa. Halberstam's superb reporting, as in *The Summer of '68*, shows that Halberstam does not merely describe the vicious contest between the Bulls, led by Karl Malone, and the Lakers, led by Jordan. He muses on the unfulfilled promise of Shaquille O'Neal, who the Los Angeles Lakers lost to the Bulls in the conference finals, and other young players on the far side of a "generational divide" within the league.

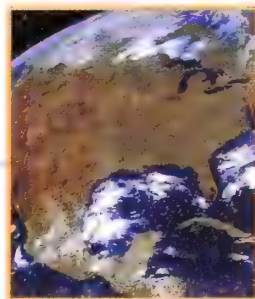
Some of the younger players, Halberstam writes, "seemed not to understand the difference between being a rock star and being a basketball player, and believed they were both." Jordan, a formidably talented, touted as the natural heir to Michael Jordan, but an incomplete player, had arrived in the league as a full-service conglom-



On-net



connects



your

No matter what size your world is, MCI WorldCom On-Net can help you manage it more effectively. Whether your needs are local, national or international, you deal with one network and one company. No handoffs to other carriers.* So the service and product are consistent from market to market. For example, your local service or high-speed Internet access works the same way in Tulsa as it does in Tokyo.

Only MCI WorldCom On-Net service network. Some restrictions may apply. MCI WorldCom On-Net is a registered trademark of MCI Telecommunications Corporation. © 1999 MCI WORLD COM, Inc. All rights reserved.

WITHOUT THE CHARISMA OF MICHAEL JORDAN, THE NBA WILL BE TESTED AS NEVER BEFORE

sing and did; he could act in and did; he could sell products and perhaps he might also play it."

apter on Game Six is also writing the eyes of people such as

Leroy Smith, a ol pal who made when Michael ean Smith, the he University of olina at Chapel helped mold Jerry Krause, the deputy to Bulls Jerry Reinsdorf. avoir faire is evs reported com- the game: "Jer- dorf] and I have von the champi- times."

for *Keeps* is really four books, oices reflect that. One book is rise of a superstar. Another is commercialization of sports, particular. A third is about all e, many interesting in their

own right—such as Coach Phil Jackson, Scottie Pippen, and Spike Lee—who were present at the creation of the world Jordan helped build. And the fourth is about the Bulls' championship season in 1997-98.

But the year that is most important to the book and to basketball is 1984. That year, Halberstam tells us, ABC Inc. bought ESPN and brought "its high-powered television skills [to]...this odd little network" that broadcast NBA games. That year, a lawyer named David Stern, who grew up working behind the counter of his father's deli, not far from Madison Square Garden, became commissioner of the NBA. And that year, Michael Jordan, with the blessing of Coach Smith, left North Carolina after his junior year to play for the Bulls.

From then on, the world of sports and sports marketing would never be the same. And after 1992, when Jordan,

Larry Bird, Magic Johnson, Patrick Ewing, Charles Barkley, and the rest of the Dream Team wowed the world at the Barcelona Olympics, it seemed as though the NBA and its stars could only fly higher and higher. No TV contract seemed too improbable, no salary too lavish, no endorsement deal too eye-popping.

Yet, despite the base of corporate support that Stern has constructed, Halberstam suggests that the league has grown too big, too fast. "Its economics had changed so dramatically that it was top-heavy and lacked a solid foundation: It was a wonderful sport for producing five or six good and sometimes great teams at playoff time, but it was built on stilts, its underpinnings shakier than those of the other two big-time sports." Now, with Jordan gone, the NBA entertainment machine will be tested as never before. And reading *Playing for Keeps*, you're left wondering how well it will fare without Michael.

BY CIRO SCOTTI

Senior Editor Scotti covers sports business.

PLAYING for KEEPS

MICHAEL
JORDAN
AND THE
WORLD
HE MADE
David
Halberstam



world

large



or small.



 **MCI WORLD COM**

also means one dedicated account team to handle all of your communications needs. Whether those needs span cities or further, by combining all of your services with us, you'll receive volume discounts. All of which makes things run a little more our world. Big, small or anywhere in between. Introducing MCI WorldCom On-Net. For details, visit mciworldcom.com

BY STEPHEN H. WILDSTROM

SEARCH ENGINES WITH SMARTS

A number of new Web sites make it easier to find those elusive facts

Everyone knows that just about all human knowledge is out there on the World Wide Web. And everyone knows that, unless you get lucky, finding just the bit of information you need can be an awesome challenge.

Conventional search sites are getting worse, as their owners reposition them as portals—and steer traffic to any other site willing to pay for a listing. But there's a new breed of search tool that can make pinpointing the information you want a lot easier.

VAST SEA. The new tools (table) recognize the limitations of a search engine, such as Compaq Computer's AltaVista (www.altavista.com), that follows the one-search-fits-all approach. For example, finding specific information, such as the teams in the 1935 World Series or the definition of a mathematical concept, calls for a search strategy far different from the one needed for finding information on Panasonic products or the home page of a local business.

Ask Jeeves is the star at pinning down specific bits of data in a sea of information. It combines two approaches.

First, it checks your query against a large database of frequently asked questions and lets you choose from a list of responses that it thinks come closest. It also parses your inquiry, translates it into search commands, and turns the job over to several search engines. Most of the time, one or the other approach provides a good answer. For example, the question, "Who

was Samuel Chase?" and "What judges have been impeached?" but found nothing useful. And a request for Sony Corp.'s home page, which I put to each new-breed engine, got a helpless: "Sorry, I cannot answer your question at this time."

Like many of these search tools, the Ask Jeeves Web site is designed largely to display technology that the company hopes to license. For example, Dell's Ask Dudley online help system is a specialized version of Jeeves.

Google, like its inspiration Yahoo! Inc., is the brainchild of a couple of Stanford University students, and it looks and feels like a work in progress. Google is designed to be what Yahoo! was in its

ample, it lets you restrict results to a specified date or to a type of source. In addition to the Web, Northern Light will search "special collection" of materials and sell you any typically for a dollar. This is a good tool for the obscure, but it is on the simple: My search returned thousands of hits, neatly organized into folders, but I could not find what I wanted. www.sony.com among

BY PRICE. Direct Hit that what you want is bly what others have and so it ranks results by popularity of the sites. Direct Hit is miss. A search for "Super Bowl XXV" came up although it suggested

profitable search "Super Bowl XXV"

A search for "Super Bowl XXV" took me straight to www.sony.com.

GoTo.com is the Web's search

ideas. It sells search engines, and has a site ranked by Google depends on how

the owner is willing to pay for each listing. The payment is displayed with the search results. The response to a

query was an auctioneer's bid. The site is www.auctioneer.com, with some Sony

facts. The site is for my visit, but no Sony product the page it got

Sony's own site, which isn't pay, ranked 14th seems to be getting mainly from sites that to latch on to a name, a formula that work well.

Except for GoTo these services are useful in the hunt for information on the Web. Picking one for the right to greatly enhance your to find what you want

NEW TOOLS FOR HUNTING

As the Web gets bigger and more confusing, there's a growing need for specialized search tools. Here are a few to help pinpoint the information you want.

ASK JEEVES Finds answers to natural-language questions such as "Who won Super Bowl XXV?" www.ask.com

ASK JEEVES!



DIRECT HIT Lists the most popular sites highest in its search results. www.directhit.com

GOOGLE Search tuned for finding the home pages of companies and organizations. www.google.com

Google!

GOTO.COM Lets Web sites steer traffic by buying high ranks in search listings. Formula doesn't work well. www.goto.com



NORTHERN LIGHT Allows for very sophisticated searches without knowing complex search commands. www.northernlight.com



is the attorney general of Florida?" returned a link to the state AG's home page. And "Do androids dream?" gave me references to the book *Do Androids Dream of Electric Sheep?* and *Blade Runner*, the movie based on it.

Jeeves—named for P.G. Wodehouse's ideal butler—is far from perfect. Thinking of impeachment, I asked: "Who

preportal days: an easy-to-use directory of Web sites. It is especially good at finding organizational home pages with a minimum of fuss. My Sony search took me directly to www.sony.com; the same search on Yahoo! required me to dig down four levels to find the site.

Northern Light goes to the other extreme, offering forms that allow you to create complex searches. For ex-

S. BECKER

UNCLE SAM SHOULD GET AWAY FROM WALL STREET



GUIDED:
Instead of
investing
Social Security
assets in the
stock market,
Uncle Sam should
move toward a
more private
investment

The temporary surpluses anticipated for Social Security in the next 15 years provide breathing room to begin extensive reform of that system. President Clinton is right to worry about the long-term solvency of Social Security, but his proposal to buy stocks with about \$800 billion of that surplus is both dangerous and misguided.

If the President's desires are implemented, the government will eventually accumulate about 5% of all issues listed on American exchanges and will become the biggest stockholder, far larger than any other public or private fund. Treasury officials claim that the government could avoid political interference by hiring private managers with a mandate to invest in a broad-based portfolio. That claim is incredibly naive, given the American political process and other governments' experience with stock purchases.

State pension funds with stocks in their portfolios have sometimes allowed political considerations to override economic returns, such as when they dumped tobacco stocks and those of companies doing business in South Africa. Perhaps a more relevant example is provided by Sweden, where the Social Democratic government in the early 1980s began investing tax revenues in Swedish stocks, with an aim of promoting industrial democracy. But even that left-leaning government shortly abandoned the plan as too controversial and unpopular, even among union members.

IN HARD TIMES? The economic temptation to add stocks is understandable, since equities in the long run have yielded much higher average returns than government bonds. But this is because returns on equities are much riskier. That explains why private pension funds investing mainly in stocks, such as TIAA-CREF, do not guarantee a fixed retirement income.

Yet the President wants to continue to guarantee retirement incomes. This is possible if equities make up only a small share of total Social Security assets, but then why bother? On the other hand, if equities do become a sizable part of Social Security assets, fixed income guarantees would require that public borrowing or other taxes make up the shortfalls during possibly protracted periods when stock markets yield below-average returns.

This is an opportune time for America to take the more radical step of following the examples of Argentina, Britain, Chile, Mexico,

Singapore, and other nations that in recent years have fully or partially privatized their social security systems through individual retirement accounts. Especially when there are thousands of competitive mutual funds and many other opportunities to save, as in the U.S., the government has no more reason to be running a massive pension system than it does to run steel or life insurance companies.

Of course, it is politically hard to dislodge a government Social Security system, partly because the transition from a pay-as-you-go public system to private individual accounts involves an extended period of so-called double taxation: Younger workers are taxed to finance the incomes of retired persons, and they also must save to accumulate assets to finance their own eventual retirement.

GRAY POWER. Financing such a transition is more palatable during a period of budgetary surplus, such as the U.S. is now enjoying. For instance, Chile's highly successful switch to a privatized system began in 1981 during a period of sizable surpluses.

Privatized systems have several advantages that are not fully appreciated. They help insulate retirement incomes from powerful lobbies of the elderly, such as the American Association of Retired Persons. They also allow retirement plans to be tailored to individual needs and preferences. Individuals that can bear more risk, perhaps because they own their houses outright, would prefer to hold retirement portfolios that are more heavily weighted with equities and other less stable assets.

Private accounts also permit healthy persons who like their jobs to work past the usual retirement ages without having to give up part of their retirement incomes. All citizens might have access to their retirement accounts at age 60, and they could then individually decide how much longer to work.

In an important earlier speech, President Clinton declared: "The era of big government is over," but his recent State of the Union Address gives little evidence of this. He could take a giant step toward his stated goal of smaller government by starting the process of converting to a universal private retirement system over the next couple of decades. Individuals would then be able to save for retirement with their preferred mix of equities and bonds, and they would also choose their own best time to retire.

Dr. Becker, the 1992 Nobel laureate at the University of Chicago, is a Fellow of the National Academy of Sciences.

data

101010

293739

data

info

data

data

information

0101

tho

29384fjcn/

010101

data

101010

data

informa

data

29384fjcn/

data

101010

101010

data

29384

md:67293

data

data

data

data insight analysis knowledge.....idea

When you look with the right tools, you find the information that makes a difference.

You're always searching for a competitive edge. But plowing through the numbers isn't enough. You need better information, and better information software. Like Seagate's Enterprise Information Management (EIM). A powerful suite of business intelligence tools that scales from the individual to the department to the enterprise. EIM includes Seagate Info™ for enterprise information analysis and distribution, Seagate Crystal Reports™ for faster decision-making, Seagate Worksheet™ to slice data cubes into intelligent bits, and Seagate Holos for data mining and scalable application development. When EIM is deployed throughout your enterprise, it delivers the power to locate information you need, help you analyze it from every angle, then display and communicate your ideas to the people who matter. After all, even the right information won't make a difference until it's in the right hands.

Make a Difference:  www.seagate.com/eim

 **Seagate.**

Information the way you want it.

Economic Trends

BY GENE KORETZ

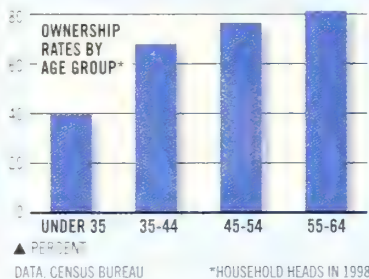
HOUSING BOOM OR BUBBLE?

Homes are going up at a record pace

If you need proof that the business cycle is different this time around, take a look at today's housing sector. While residential housing usually takes off like gangbusters in the early stages of a recovery and loses steam as an expansion ages, it is actually booming—eight years into the current cycle.

Last year's statistics tell the story. New and existing home sales shattered all records. Median existing-home prices rose 5% for the third year in a row.

HOW HOMEOWNERS' RANKS GROW AS THEY AGE



Counting manufactured housing, some 2 million homes were built—the most since 1978, when baby boomers were starting to form households. And the share of households owning their own homes has hit a record 66.6%.

The housing boom's impact on the economy has been pervasive. Economist Mark Zandi of RFA, an economics consulting firm, estimates that housing—directly via construction and indirectly via stimulus to sales of furnishings and other items—accounted for a quarter of the economy's near 4% growth last year.

The big questions, though, are how long the boom can last and whether it will end in a sharp contraction. Zandi warns that housing construction now outpaces underlying demographic demand—pegged at 1.7 million homes a year over the next decade to meet the needs of population growth and scrapped units.

Economist David W. Berson of Fannie Mae thinks several long-term trends should help to limit future falloffs in housing activity. One is the use of new credit criteria by mortgage lenders to reach low-income home buyers who are

good credit risks but were turned away in the past. Another is the huge surge in legal immigration in recent decades. Although home ownership among immigrants is initially low, it rises rapidly after a decade or so.

The aging of the baby boomers is also boosting housing demand—not only because homeownership rises with age (chart), but because the leading edge of the baby boom is entering its 50s—a period when demand for second homes rises sharply. Economists at Standard & Poor's DRI expect such demand to grow steadily for the next 20 years.

Meanwhile, RFA's Zandi concedes that the near-term underpinnings of the housing market remain solid. Inventories of new and existing homes are at or close to record lows. Unemployment is low, and income growth is strong. The stock market is still buoyant, and mortgage rates remain below 7%—the lowest they've been in a generation.

Thus, while he expects housing demand to weaken later this year as the economy slows, Zandi sees little sign that this is about to happen. A risk, he says, is that overconfident homebuilders will be slow to react when demand finally falters—prolonging the housing boom by putting up more houses, but eventually turning what might have been a slowdown into a sharp decline.

A SURPRISE ABOUT CEO PAY

Ties to the board don't matter

It's a common claim of critics of the huge pay packages earned by corporate chief executive officers: Such inflated pay all too often reflects cozy relationships between CEOs and boards of directors. The trouble with such charges, says a recent study in the *Academy of Management Journal*, is that they don't stand up to analysis.

In the study, a team of researchers led by Catherine M. Daily of Indiana University's Kelley School of Business looked at how the makeup of board compensation committees affected CEO pay at some 194 major U.S. companies from 1991 to 1994. The authors focused on three types of directors: those who had a personal or business relationship with the company or its top executives, those who were appointed during the tenure of the current CEO, and those who were CEOs themselves.

Adjusting for a number of factors, including company size and industry,

the group found no evidence of impact of committee composition on CEO pay or changes in pay—whether the form of direct salary or of stock options, and other incentives.

The results suggest that efforts to remove directors with personal or professional ties to companies may be misguided. "CEO compensation may be excessive," says Daily, "but the presence of such directors isn't the cause."

A GOP TAX CUT: NO SURE WINNERS

The rich would get the lion's share

Republicans, observes economist Lawrence Kudlow of American Skandia, "were put on this earth to pay taxes—it's the only thing they're good at." From his perspective, the proposal to cut income tax rates appears to be a sure political winner.

A possible problem, however, is a 10% tax cut overwhelmingly benefiting high-income taxpayers. That's because the top 5% of taxpayers pay over 60% of total federal individual income taxes. Indeed, says the conservative Tax Foundation, the top 10% paid over 62% of income taxes in 1996, while the bottom 50% paid just 4.3%. (By contrast, everyone with a paycheck pays Social Security taxes, the top 5% pay a smaller share of their pay.)

The liberal Citizens for Tax Justice comes up with similar numbers. Its analysis indicates that the top 10% of taxpayers would get 62% of the \$1.2 trillion that a 10% tax cut would save over the next decade. It also estimates that the top 1%, with annual income over \$300,000, would get 32% of the cut pie; the bottom 60% would get 9.3%, or an average of just \$99 a year.

Thus, Republicans face a thorny political hurdle: Under America's progressive tax system—and particularly in an economy in which income distribution has grown more unequal—a 10% cut in income tax rates spells little relief for the majority of Americans and a lot for the minority who pay most of the taxes.

A 10% TAX CUT: WHO GETS THE MOST?

FAMILY INCOME*

\$200,000
\$100,000
\$50,000
\$25,000

*GROSS INCOME BEFORE DEDUCTIONS AND EXEMPTIONS. TWO-EARNER, TWO-KID FAMILY. ASSUMES ALL INCOME TAXES ARE PAID. DATA CENTER ON POLICY PRIORS

How to Make Smarter Mutual Fund Choices in 1999

Prudential core funds

U.S. STOCK

Prudential Equity
Prudential Equity Income
Prudential
Prudential Growth
Prudential Small
Prudential Company Value

GLOBAL AND INTL. STOCK

Prudential Europe
Prudential Growth
Prudential World/
Prudential International Stock
Prudential World/Global

BONDS

Prudential
Prudential Diversified Bond
Prudential High Yield

FREE BONDS

Prudential Municipal
Prudential High Income
Prudential California
Prudential Municipal Bond

GLOBAL BONDS

Prudential Global Total Return
Prudential core funds are
beginning. We offer over
mutual funds to meet all
investment needs.



It's that time of year when many investors consider adjusting their mutual fund portfolios. If you're thinking about making some changes, remember: In this bull market, almost any fund family can boast about recent returns. But, bull markets don't last forever. That's why Prudential offers this checklist of other important qualities to look for.

- ☒ **Choose an experienced fund manager.** Has the fund manager shown stock-picking skills in anything other than today's bull market? *The Wall Street Journal* reports that the average age of today's portfolio manager is just 29. You'll probably feel more at ease with money managers who are experienced in both bull and bear markets.
- ☒ **Seek a responsible balance of risk and reward.** Don't expose your portfolio to risk you don't want. Make sure that your mutual funds don't achieve their returns by taking on more downside risk than you're comfortable with.

- ☒ **Look for a disciplined investment style.** Check to see whether a fund sticks to its stated objectives. Funds that pursue performance at the expense of consistency can blur your asset allocation and your overall investment strategy.
- ☒ **Demand consistent long-term performance.** Investors rarely buy a mutual fund for short time periods, so examine the returns that a fund has delivered—not just recently—but over the last five or ten years. A fund with a proven track record can give you the confidence that your fund is managed with an eye for long-term results. Of course, past performance is no guarantee of future results.

Prudential core funds focus on all these qualities and more.

A Rock Solid® reputation for long-term performance. Fund managers averaging 18 years of investment experience. Intensive company-by-company research. You can find it in Prudential's core fund array. Talk to your financial professional about how Prudential core funds can fit in your overall investment strategy.

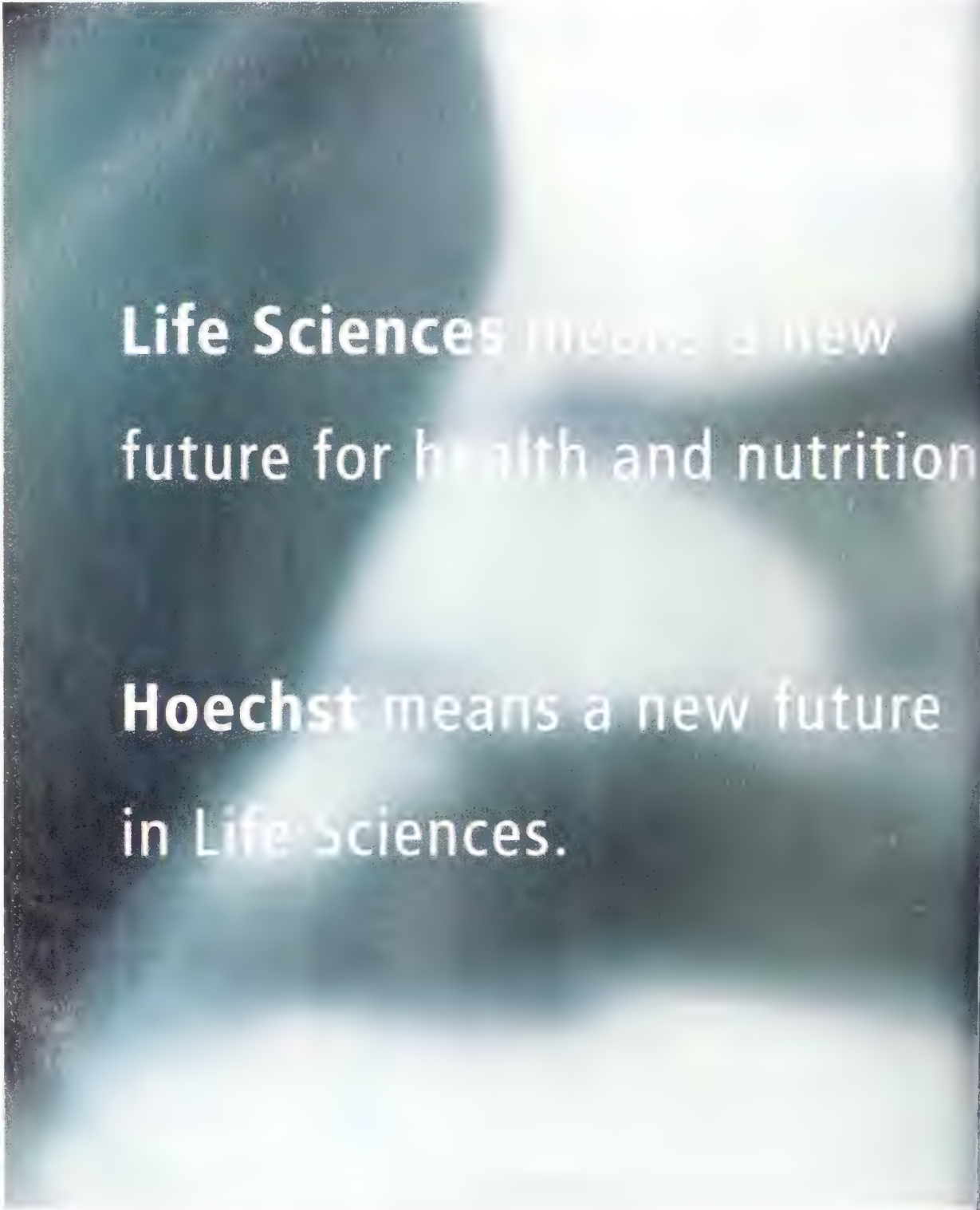
Call today! Ask for a prospectus with more complete information on share classes, sales charges, management fees and expenses. Read it carefully before you invest.

1-800-THE-ROCK
(1-800-843-7625)
ext. 3139 www.prudential.com



Prudential
Investments

For Hoechst, Life Sciences means focusing on the fields of health and nutrition where biotechnology holds the key to the future. Hoechst Marion Roussel, our pharmaceutical company, is developing highly effective drugs in the fight against current diseases. Our agribusiness, Hoechst Schering AgrEvo, is ensuring nutrition for the world's growing population through crop production.



**Life Sciences means a new
future for health and nutrition**

**Hoechst means a new future
in Life Sciences.**

Hoechst is an international group of companies spearheading innovation in Life Sciences, including **Hoechst Marion Roussel** and **Hoechst Schering AgrEvo**.
Hoechst AG, D-65926 Frankfurt, www.hoechst.com

The Future in Life Sciences

Hoechst 



chemical company,  ApoEco the agribusiness and **Hoechst Roussel Vet** the animal health company.

20th ANNIVERSARY

NIGHTLY BUSINESS REPORT

Television's #1
Daily Business News Program.

Weeknights
on your local
public television
station.

Visit our website www.nightlybusiness.org

Nightly Business Report is produced by WPBT2/Miami in association with **BRIDGE**.

Nationally underwritten by:

Campaign: A.G. Edwards, Inc. and The Franklin Templeton Group.

THE NEW INGREDIENT IN THE FED'S MIX

tighter link between growth and stock prices complicates policy

ECONOMY The stock market is not a target of Fed policy. Federal Reserve Chairman Alan Greenspan said just that—a fact—in his Jan. 20 congressional testimony. “Subjective,” he said, “is maximum sustainable growth of the U.S. economy, not particular levels of assets.” But there’s a problem. Because economic and stock prices are now connected unlike at the end of the Roaring ’20s, any Fed move directed at either preserving or limiting growth will be complicated by the stock market’s reaction.

RIA NOW, BUT CAUTION AHEAD



consumer spending, after slowing a bit in the fall, skyrocketed back toward its 6% growth rate of half of 1998, as confidence stayed high (chart). The one-quarter phenomenon, either. Over the last year, consumer spending rose about two percentage points faster than household income did, because surging stock prices let many households save. Consider that, in the past six years, net worth swelled nearly 50%, even as the saving rate fell below zero. Had the saving rate over the past two years held at the historically low rate of 1996 instead, real gross domestic product growth would have been about 2.7%, not 3.7%.

OLDERS' INCREASED RELIANCE on wealth, slow growth, means that while the Fed does not “set” stock prices, it cannot set policy without knowing how stock swings will affect domestic demand for overall economic growth. That presents a particularly thorny problem for 1999 policy because wealth has become unusually skewed toward the oldest beneficiaries of the wealth effect. Last year, for example, consumers accounted for 60% of overall economic growth. And that imbalance may worsen in 1999, since capital spending,

housing, and exports are likely to provide less support to growth this year than they did in 1998. Consequently, the stock market’s path could result in anything from recession to continued booming growth.

Consumers will determine which outcome occurs. For now, they remain optimistic. The index of consumer confidence, though down from last summer’s 30-year peak, edged up to 127.6 in January from 126.7 in December, undoubtedly buoyed by healthy job growth. But a bit of caution has crept into households’ attitudes about the future, even as their assessment of present conditions has stayed historically high.

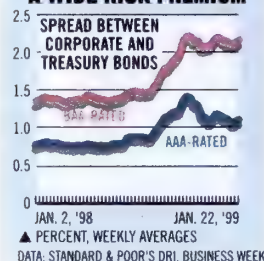
The renewed surge in equity prices likely boosted the current heady viewpoint, but the stock market’s role here goes beyond just the bull market’s feel-good factor. Because of the wealth effect, consumer demand is boosting overall output—and employment—at a pace far greater than what income growth alone would allow. In a sense, the soaring market has helped to generate the job opportunities that have lifted consumers’ spirits. However, Greenspan cautioned about the cost pressures from ever-tighter labor markets. And he noted that somewhat slower economic growth may be needed to sustain this low-inflation expansion.

MORE MODERATE GROWTH will likely be found in the sectors outside of consumer spending. In particular, housing, capital spending, and exports will face their own structural restraints in 1999.

The case for housing is simple: Trees don’t grow to the sky, and neither do home sales or construction. Housing finished a record 1998 on a strong note, though good weather helped. In December, existing homes sold at a record annual rate of 5.03 million. But a repeat of growth like that would require another big decline in mortgage rates, continued robust job growth, and an additional 30% jump in stock prices.

As for capital spending, the outlook is poor, regardless of the stock market. Profits are under pressure from weak pricing power, higher labor costs, and sagging exports. That is creating a growing lack of internally generated funds and forcing corporations to bor-

LENDERS STILL WANT A WIDE RISK PREMIUM



Business Outlook

row at a time when funds are costlier or unavailable.

The risk spreads that attracted attention after the Russian debt default last summer have not improved much, even for borrowers with a sterling AAA rating (chart, page 31). The yield spread between riskless Treasury bonds and the paper of BAA-rated companies, which is still investment-grade, has not improved at all. Moreover, Fed surveys show that banks have tightened their corporate-lending standards.

THE ONE SPREAD that is almost back to normal is the gap between a new 30-year Treasury bond and a 29-year Treasury, which is less liquid. After Russia, this "on the run/off the run" spread widened as the debt markets seized up and investors sought not just quality but liquidity, provoking the Fed's rate cuts.

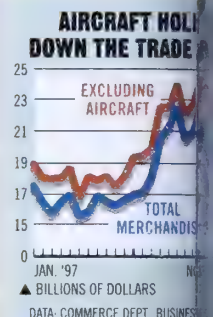
Although the spread has narrowed, it is still worth watching in light of Brazil's woes. The Brazilian real has crashed 36% in two weeks, after the government freed the currency from its peg to the dollar. But worries that Brazil could default on its huge domestic debts are mounting. If those fears turn into a panic, then the flight to liquidity and quality will make capital much more costly for businesses, which, in turn, will likely put more of their projects on hold.

Brazil's woes also highlight the dim outlook for foreign trade. The trade deficit widened sharply in November, to \$15.5 billion, after narrowing to \$13.6 billion

in October. November exports slumped, as imports rose. Renewed weakness in exports was predestined. Foreign shipments had picked up sharply in September because of a large increase in aircraft shipments. In fact, aircraft exports helped to give the impression that the trade gap was stabilizing, but excluding just that, the deterioration continues (chart).

The fact that the U.S. remains an oasis of prosperity assures continued deterioration in its trade deficit, as imports grow amid weak foreign demand. Brazil and key Latin American nations are heading into recession. Japan is already there. The rest of Asia is stabilizing but still on its back. Britain is flirting with recession, and growth in Europe's euro zone looks to be slipping below its '98 target.

All this means that consumers have a heavy load to carry, and the stock market will go a long way toward deciding if households are up to the task. More importantly, the market is creating a whole new game for monetary policy: The Fed must add "maximum sustainable growth" without creating a dangerous stock market bubble or knocking equity prices down to levels that would harm the economy.



SPAIN

LOFTY PLANS FOR JOB GROWTH

Prime Minister José Maria Aznar thinks Spain can "conquer the problem of unemployment" in four years. True, unemployment is down, but the jobless rate is 18.2%, the euro zone's highest—and with the labor market's inherent instability, the goal is optimistic. But for this year and next, at least some further improvement is on the way.

Joblessness has fallen from 22% in the past two years, when economic growth was about 3.6%, and economists believe that the measured rate is overstated. Moreover, growth in the fourth-largest euro zone economy is set to match that pace in 1999, besting the rate for the overall region again. Growth

will be driven by domestic demand, especially consumer spending and construction, two areas where recent surveys show soaring confidence. Brazil's devaluation has hit Spain's telecom and bank

stocks, and the country sends 7% of its exports to Latin America. However, strong demand at home will overwhelm the global slowdown forces.

Low interest rates and an income-tax cut are driving consumers. Euro zone interest-rate convergence has cut

Spanish rates by three percentage points in two years. November retail sales rose 7% from a year ago; December car registrations soared 23%. Despite rapid growth,

1998 inflation was 1.4%, a 30-year low, and is expected to stay down, lifting workers' real wages.

The chief labor-market problem is the short-term nature of most employment, which is tied to the service sector, especially tourism. Spain's largest industry. In addition to 1997 labor reforms that lengthened some job contracts, the government on Jan. 14 eased the social security burden on employers who create more permanent jobs. The highest cost savings go to those who hire workers and workers older than 45. After generating 450,000 new jobs in 1998, the government vows to create 350,000 jobs per year through 2002, which would cut the jobless rate to an average of 12.8% in 2000 to 2002. But it will take continued robust economic growth to hit that goal.

FURTHER PROGRESS IS ON THE WAY



@bellissimo



www.vespa.com is an IBM e-business.

When in Rome, visit your scooter dealer. When you're not, let IBM Web servers bring the showroom to you.

IBM

SO MUCH FOR THE EARNINGS SLUMP

Fourth-quarter earnings put the forecasters to shame



	CURRENT QTR. E. (MIL.)
INDUSTRIALS	
ALCOA	4,188
BOEING	17,090
BRISTOL-MYERS SQUIBB	4,840
CATERPILLAR	5,400
CHEVRON	7,110
COCA-COLA	4,480
CONAGRA††	6,400
DUPONT	6,090
EASTMAN KODAK	3,560
EXXON	29,660
FORD MOTOR	37,900
GENERAL ELECTRIC	28,630
GENERAL MOTORS	46,300
GEORGIA-PACIFIC GROUP	3,380
HALLIBURTON	4,210
INTERNATIONAL PAPER	5,000
JOHNSON & JOHNSON	6,340
MERCK	7,530
MINNESOTA MINING & MFG.	3,780
MOBIL	13,270
MONSANTO	2,140
NIKE††	1,900
PHILIP MORRIS	18,400
PROCTER & GAMBLE††	9,900
SARA LEE††	5,280
TEXACO	7,840
UNITED TECHNOLOGIES	6,800
USX-U.S. STEEL GROUP	1,340
WHIRLPOOL	2,700
SERVICES	
AMERICA WEST HOLDINGS	500
AMERICAN EXPRESS	5,000
AMR	4,600
BANK ONE	A
BANKAMERICA	A
BANKERS TRUST	A
BURLINGTON NORTHERN SANTA FE	2,200
CHASE MANHATTAN	A
CITIGROUP	A
CNF TRANSPORTATION	1,340
CSX	2,500
DISNEY (WALT)†	6,510
DOW JONES	409

arely a month ago, Wall Street was bracing for what analysts agreed would be a flood of bad fourth-quarter earnings reports. Maybe, just maybe, earnings come in a little better than in the third quarter, when results fell 4% from 1997.

Rise! Day after day during the weeks of January, companies have living past Wall Street expectations from Microsoft to 3M to Boeing, of outfits have posted stronger-than-expected earnings. Some did it with huge sales gains—a 38% jump at Intel, for instance. Others, such as General Electric Corp., didn't top forecasts but ended outsize gains over losses a

year earlier when they were making big cuts to boost efficiency.

Whatever the reason, the results are impressive. BUSINESS WEEK's flash earnings report, based on announced financial results of 80 companies, shows net incomes are up an average 8%. BW's flash estimates in the previous three quarters showed earnings shrinking.

The bottom line on the bottom line? Rather than slowing in the fourth quarter, as many had predicted, the U.S. economic expansion may actually have accelerated. With low interest rates, relative calm in the global economy, and strong consumer spending, economists were upping estimates of fourth-quarter gross domestic product on the eve of the

government's official release on Jan. 29.

Now, economists are boosting estimates for 1999. Merrill Lynch & Co. has raised its downbeat 1.5% forecast over the next four quarters to 2%, with even rosier revisions coming. Goldman, Sachs & Co. has boosted its 1999 forecast from 1.5% to 2.1%, largely because its economists figure that Year 2000 computer-malfunction worries will spur output toward yearend. "People are going to add inventories to guard against supply disruptions," says economist William Dudley.

The world's troubles haven't gone away and are still plaguing U.S. exporters. But there's little reason to fear a major slowdown in the U.S. in the near term. The Conference Board's consumer

CHG.	EST. EPS (11/19)	REPORTED EPS	DIFF.		CURRENT QTR. SALES (MILLIONS)	% CHG.	QTR. PROFITS (MILLIONS)	% CHG.	EST. EPS (11/19)	REPORTED EPS	DIFF.
4	0.72	0.71	-0.01	ENRON	5,406.0	-8	176.0	+4	0.45	0.49	+0.04
4	1.09	1.18	+0.09	FDX††	4,209.2	+7	182.8	+22	1.09	1.23	+0.14
M	0.43	0.48	+0.05	FIRST UNION	NA	NA	857.0	+49	1.02	0.87	-0.15
19	0.89	0.90*	+0.01	FLEET FINANCIAL GROUP	NA	NA	416.0	+25	0.68	0.69	+0.01
13	1.07	0.83	-0.24	MCDONALD'S	3,220.7	+9	348.5	-15	0.64	0.64*	—
11	0.65	0.66	+0.01	MCGRAW-HILL	938.2	+4	74.5	+11	0.75	0.75	—
7	0.30	0.24	-0.06	MERRILL LYNCH	8,172.0	-2	359.0	-23	0.65	0.86	+0.21
1	0.46	0.46	—	MORGAN STANLEY DEAN WITTER	3,969.0	+6	1,224.0	+51	0.95	1.49*	+0.54
M	0.66	0.68	+0.02	MORGAN (J.P.)	NA	NA	89.0	-67	1.00	0.88*	-0.12
M	1.15	1.05*	-0.10	SCHWAB (CHARLES)	957.5	+25	106.4	+69	0.21	0.26	+0.05
9	0.69	0.62	-0.07	SEARS, ROEBUCK	12,158.0	-7	535.0	0	1.62	1.39	-0.23
2	1.25	1.35*	+0.10	SUNTRUST BANKS	NA	NA	157.9	-38	0.92	0.86*	-0.06
4	0.80	0.80	—	UAL	4,281.0	+1	54.0	+69	1.71	0.57*	-1.14
2	2.52	2.61	+0.09	U.S. BANCORP	NA	NA	349.2	+21	0.52	0.48	-0.04
M	-0.11	0.30	+0.41	WELLS FARGO	NA	NA	-194.0	NM	0.46	0.46	—
5	0.40	0.15	-0.25	TECHNOLOGY	74,638.8	+13	8,918.5	+60	0.78	0.92	+0.14
7	0.15	0.10	-0.05	AMERICA ONLINE††	960.0	+62	121.0	+267	0.14	0.22	+0.08
7	0.51	0.50*	-0.01	APPLE COMPUTER†	1,710.0	+8	152.0	+223	0.68	0.95	+0.27
3	1.16	1.16	—	COMPAQ COMPUTER	10,859.0	+48	758.0	+14	0.36	0.43	+0.07
2	0.97	0.86*	-0.11	GATEWAY 2000	2,305.6	+17	129.1	+39	0.78	0.81	+0.03
M	0.70	0.62*	-0.08	IBM	25,131.0	+6	2,346.0	+12	2.43	2.47	+0.04
M	0.06	0.05*	-0.01	INTEL	7,614.0	+17	2,064.0	+18	1.04	1.19	+0.15
1	0.22	0.24	+0.02	MICROSOFT††	4,938.0	+38	1,983.0	+75	0.59	0.73	+0.14
9	0.72	0.72*	—	MOTOROLA	8,337.0	+1	159.0	-50	0.23	0.26	+0.03
9	0.78	0.78	—	NETSCAPE COMMUNICATIONS	162.0	+7	2.7	-75	0.04	0.03	-0.01
M	0.39	0.34	-0.05	SUN MICROSYSTEMS††	2,784.4	+14	261.1	+75	0.66	0.64	-0.02
M	0.54	0.15*	-0.39	TEXAS INSTRUMENTS	1,993.0	-18	189.0	NM	0.53	0.47	-0.06
8	1.11	1.16	+0.05	UNISYS	2,048.8	+8	138.6	NM	0.40	0.42	+0.02
0	0.41	0.63*	+0.22	XEROX	5,796.0	+7	615.0	+17	1.67	1.69	+0.02
6	1.07	1.09	+0.02	UTILITIES & TELECOM	61,416.8	+6	7,699.3	+60	0.66	0.69	+0.03
1	0.64	0.61	-0.03	AMERITECH	4,442.0	+7	762.0	+25	0.61	0.68	+0.07
0	0.44	0.51	+0.07	AT&T	13,528.0	+5	1,988.0	+59	1.00	1.12	+0.12
8	1.16	1.16	—	BELL ATLANTIC	8,077.1	+5	1,061.2	+13	0.69	0.65	-0.04
3	1.39	1.09	-0.30	BELLSOUTH	6,168.0	+10	1,003.0	+36	0.41	0.51	+0.10
5	0.89	0.88*	-0.01	LUCENT TECHNOLOGIES†	9,204.0	+6	1,400.0	+77	0.98	1.04	+0.06
0	0.98	0.91*	-0.07	PG&E	5,495.0	+12	196.0	+109	0.42	0.51	+0.09
4	0.74	0.89	+0.15	SBC COMMUNICATIONS	7,676.0	+8	816.0	+27	0.55	0.41	-0.14
6	0.63	0.63	—	U.S. WEST	3,204.0	+14	368.0	+62	0.73	0.73	—
1	1.06	1.31	+0.25	UNICOM	1,564.0	-6	111.0	NM	0.31	0.51	+0.20
3	0.64	0.60*	-0.04	WILLIAMS	2,058.7	-12	-5.9	NM	0.30	-0.02	-0.32
8	0.71	0.61	-0.10								
0	0.68	0.51	-0.17								
8	0.29	0.30	+0.01								
4	0.62	0.59*	-0.03								

† First-quarter results

†† Second-quarter results NM = not meaningful NA = not available

*EPS adjusted for special items

DATA: STANDARD & POOR'S COMPUSTAT, A DIVISION OF THE MCGRAW-HILL COMPANIES. EARNINGS ESTIMATE DATA PROVIDED BY I/B/E/S INTERNATIONAL INC. NEW YORK, NY. I/B/E/S IS A REGISTERED TRADEMARK OF I/B/E/S INTERNATIONAL INC.



Low interest rates and strong consumer spending have economists upping estimates for this year, too

confidence index for January was up for a third straight month. Negligible inflation, low interest rates, rising incomes, strong housing starts, and robust consumer demand all point to continuing growth. "People were just too pessimistic about the fourth quarter," says Lawrence Kudlow, chief economist for American Skandia Life Assurance Corp. "We have indications that a good fourth quarter will spill over into 1999." Kudlow expects operating earnings to stay in the 5% to 6% range for this year.

How strong will the fourth quarter come in? The final numbers for the quarter could be below the flash estimate. But First Call Corp., which had projected operating earnings for the Standard & Poor's 500-stock index would rise 3%, has boosted the forecast to 4.5%. And when every major company has reported, says Research Director Charles L. Hill, "I wouldn't be surprised if we hit 5%." Plus, comparing the vibrant earnings with the flat sales growth in the BW sample suggests some companies managed substantial productivity gains.

AWESOME SHOWING. Behind the averages, though, are widely varying stories. Many of the most pleasing surprises have come from tech companies such as Microsoft and Intel Corp. Analysts expected Microsoft to report 59¢ per share and Intel \$1.04; instead, they turned in 73¢ and \$1.19. Overall, the industry's showing was awesome, with a 60% average increase in net income. Part of the surge came from strong home-PC sales at Christmas.

But there are signs—hazy ones to be sure—that the high-tech growth engine could slow. One reason sales soared in the fourth quarter is that companies are loading up on high-tech gear now because later in the year they'll be spending their computer budgets on the Year 2000 bug. Microsoft Chief Financial Officer Gregory B. Maffei warned analysts that in coming quarters they may not see the kind of growth the company had last quarter. "A lot of revenues may have been pulled from '99 back into the last quarter of '98," he warned.

If Maffei is right, computer and soft-

ware makers could see far slower year-over-year gains in coming quarters. Partly because of Y2K uncertainties, "the second half of 1999 may not be as strong," Unisys CEO Larry Weinbach told Wall Street after his company reported a surprise rebound in fourth-quarter earnings after a \$1 billion write-off a year ago.

Unexpected earnings gains also extended to some of the biggest victims of

global markets. Heavy-equipment manufacturers in particular: Caterpillar saw its net skid 33% amid a sales slump in Asia. Commodity companies are also suffering. "The home run all hit at home, in America," says Edward E. Yardeni, chief economist at Deutsche Morgan Grenfell. Exxon, the largest U.S. oil producer, saw earnings tumble 39%, to \$1.5 billion.



"A lot of revenues may have been pulled from '99 back into the last quarter of '98"

—GREGORY MAFFEI
Microsoft

finished the year at \$11 a share. The low oil price was hardly a boon for smaller companies. Texaco, with one-fourth of Exxon's revenues, recorded a loss of \$100 million. And copper producer Phelps Dodge Corp. disappeared from Wall Street with a loss of \$100 million as copper prices fell to 1998 at half the level of 1997. When might all this come? "That's unknown," sighs Treasurer Thomas J. Sures.

Sure, the world beyond U.S. borders could finally

the third quarter: financial services companies. The undeniable winner in that crowd was Charles Schwab & Co., whose earnings rose 69% to \$106 million. Reason: The discount broker focuses on domestic stockholders and eschews the fancy underwriting and proprietary trading businesses that bedeviled its white-shoe brethren. Morgan Stanley Dean Witter, which saw earnings dip in the third quarter, posted a \$1.2 billion profit in the fourth, partly because of a rebound in underwriting. Merrill Lynch & Co., by contrast, was still becalmed in the fourth quarter because of bond-trading losses.

The quarter's sad sacks were the companies with the most exposure to

the domestic economy, making companies feel the pain of the downturn. Or the economy's exuberance spurred inflation, pushing up interest rates and putting a brake on growth. Economists, for example, are carefully monitoring wage costs, which Standard & Poor's DRI projects will rise 3.9% this year, up from 3.6% in 1998. Then they had the same worries last year. "Not long ago," says Gruntal & Joseph V. Battipaglia, "we heard of a recession in 1999. Not now—that's in large part due to 1998's sweet surprise."

By Larry Light, with Fred Jesperson and Ira Sager in New York and other reports

COMMENTARY

By Owen Ullmann

GREENSPAN: BETWEEN THE HAWKS AND A HARD PLACE

usually, when the U.S. economy starts rollicking too much, you can count on the Federal Reserve to halt the party before it sends the economy with an inflation fever. Not this time. When Chairman Alan Greenspan and his monetary mavens gather on Feb. 2-3, he'll be looking at an economy whooping it up: a sizeable stock market, running consumer spending, rising wage pressures. In more tranquil times, the Fed would be weighing whether it's time to hike interest rates to cool things off. But with the global financial system still in a shaky condition, the Fed can't dare boost rates. "You just looked at the stock economy, the Fed would be leaning to tightening," says former Fed Vice-Chairman Manuel H. Johnson. "It has no choice but to keep the economy strong and the stock market up. If it signaled tighter policy, it might set off a bombshell."

Now, inflation is below 2%, so there's no risk in keeping rates steady. But this year, the rate-setting Federal Open Market Committee could find it unable to thwart rising inflationary pressures. Some Fed officials privately concede they may need to act if the economy refuses to grow on its own. But that option is available if much of the global economy is in recession or turmoil.

Greenspan is even prepared to cut rates again if required to stabilize the world financial system, regardless of the new buying spree likely unleashed on Wall Street. "The risks

everyone is depending on the powerful U.S. economy to prevent the first global downturn since World War II. "Even a hint that the U.S. might go into a recession is unthinkable," says former Fed Governor Lawrence B. Lindsey. "The Fed has become the guarantor of both the world economy and the U.S. stock market."

That role makes some FOMC members nervous. Their concerns began to grow after Greenspan requested a quarter-point rate cut in November, the third in three months. Fed sources say the move was a tough sell. Now, several FOMC members have misgivings about the cut because of a later runup in stock prices and signs of strong economic growth.

SPARK. Greenspan isn't fretting about inflation right now. His chief worry is a stock market that's rising much faster than corporate profits. The higher stocks soar, he fears, the farther they can fall, causing a reverse "wealth effect" that would spark a U.S. slowdown.

Despite his anxieties, Greenspan recognizes that he may have to give Wall Street another unintended boost if a new crisis requires a rate cut. It's a trade-off worth making. When you have to play central banker for the world, frothy stock prices aren't so bad. The alternative is a lot scarier.

Senior Writer Ullmann has followed the Fed for two decades.



RISK A shaky global economy may prevent him from tightening

of letting the global economy falter are far greater than the risk of letting inflation out of the bottle," says one Fed official.

That's a comforting view for investors around the world: With Asia in a deep slump and Europe slowing,

hedge funds should be regulated by the U.S. alone. Instead, he said, regulators should impose controls on bank lending to the funds. Now, international central bankers and regulators are endorsing the recommendation. And the Fed itself plans to issue new rules for hedge-fund lending in early February.

Will regulation of hedge funds themselves be next? Perhaps—if credit controls prove inadequate. A panel of the Basle Committee on Banking Supervision, a group that oversees international bank lending, warned on Jan. 28 that some hedge fund activities may threaten

the world financial system. But many funds are domiciled in loosely regulated offshore financial centers, and tighter regulation could face big political obstacles.

The panel wants banks to closely monitor loans to hedge funds and become harder-nosed about the collateral hedge funds offer. Collateral can plunge in value when markets fear that huge portfolio liquidations are imminent.

Since Greenspan's October speech, markets have calmed. But his colleagues want insurance against another LTCM-style debacle.

By William Glasgall in New York

FACTORS

REGULATING IN HEDGE FUNDS

credit controls. Then...?

When Federal Reserve Chairman Alan Greenspan testified to Congress after the \$3.6 billion bailout Term Capital Management, he "questionable" whether global



ASIA

HOW LONG CAN BEIJING HANG TOUGH?

Pressures mount for China to devalue or face turmoil

For a few terrifying hours, traders thought they were witnessing the start of the next Asia crisis. Bourses from Seoul to Singapore plunged Jan. 25 after an article in the Chinese press suggested a devaluation of the yuan could boost the sagging economy. Nervous traders feared such a move could prompt battered countries like Thailand to devalue their currencies again—and just when things were starting to look better in Asia. Only vigorous denials by Beijing restored calm.

But the official promises don't have investors, bankers, or people doing business in China breathing easy. As much as Chinese leaders would prefer to hold the line, they may be forced to devalue as early as the second half of 1999. Exports, which make up 20% of the economy, are dramatically slowing. Unemployment is rising sharply, leading to more and more worker protests. And foreigners are losing their appetite for the China market and scaling back investment and

lending. The result will be slower growth this year—perhaps just 4.5%, nowhere near Beijing's 7% forecast.

If Beijing finds itself with no other choice but devaluation, the hope is that a readjustment would help exports, boost consumer spending, and create enough jobs to absorb this year's record number of unemployed, which some economists put at 15%. That's an option of last resort, however, since the fear is that even a modest devaluation could trigger a worldwide panic, wipe out the fragile Asian recovery, and send the U.S. trade deficit soaring.

But Beijing's efforts to clean up its shaky financial sector could dampen growth further and force devaluation later. The Jan. 10 bankruptcy of Guangdong International Trust & Investment Corp. (GITIC) has spooked foreign lenders, who may not see a penny from their loans. So international bankers are calling in some of their loans in China early, refusing to roll over others, and

balking at lending new money. That's causing default at other investment companies. "Banks will be very discerning," says Jim Lam of ABN Asia Ltd. in Shanghai. "Companies will definitely tighten credit."

BUILDING BOOM. For now, Beijing is trying Keynesian stimulus. It's pumping money into infrastructure projects: roads and phone lines to tie up schemes. "The goal is maintaining social stability," says deep Mukherji, an analyst at Standard & Poor's Corp.

Yet there are doubts that it will be enough. **IDLE HANDS:** is dealing with serious capacity. In the jobless ranks, many have hit 15% to \$500 billion half of the

economy, and fears of skyrocketing unemployment have dampened consumer spending. Prices have dropped months in a row. "Deflation pressure is huge," says Chi Lo, senior international economist at HSBC Securities Asia in Hong Kong.

China, with its many strengths, is no Brazil. Despite its mounting economic woes, it still has a huge current-account surplus, not to mention \$145 billion in foreign-currency reserves. If it were to devalue, it would spark a run on domestic banks, which rely on deposits for survival. Chinese leaders also know they could trigger an attack on the Hong Kong dollar, which is pegged to the greenback. Devaluation would also mean a loss of face. China won kudos from the U.S. for its currency firm in the midst of the Asian crisis. By weakening it now, Beijing would undermine goodwill when it is needed for its latest crackdown on dissidents.

China is trying to ease the pain in other ways, such as export rebates amounting to a de facto devaluation for exporters. Electronics exporters now get a full tax refund from the government rather than pay 8% tariffs. Officials are calling foul. They insist that export subsidies violate World Trade Organization rules.

Beijing may be able to stave off devaluation for now. But growing pessimism over the economy will continue to skittish markets—not to mention officials themselves. So count on scary moments ahead.

By Dexter Roberts in Beijing
Joyce Barnathan in Hong Kong

Just one article in the press started a fearsome panic

GE CAPITAL'S TOYO TREASURE HUNT

buy tens of billions' worth of assets in the next few years

s weekly tabloids have ranting about how for-
ers have been trying to
Tokyo's financial mar-
w, they really have
tling to get excited over.
24, in the biggest for-
out on record in Japan,
al Corp. snapped up
a worth of assets from
using Corp., an affiliate
Term Credit Bank of
ne Japanese tabs may
more to write about as
ice unit continues to
bargains.

Asia's economic melt-
gan, GE Capital has
pping for assets. In
ought about \$1 billion
Thai auto loans for half
value, and it's part of
hat's angling to take
a First Bank.
eachhead in Japan is
GE Capital's goal of
Asian earnings from
today to 10% by 2001.
is clearly the single
portunity for us right
s GE Capital President
Nayden. "The oppor-
re sizable, and they're
ry fast." Analysts say
ul could invest up to
in Japanese assets
next few years.

5. GE has an eye for
es financial assets. It
op buyer of Resolu-
Corp. assets during
s thrift crisis, and it
ore than \$30 billion in
en the early 1990s.
in when it's ugly, and
it around," says Pru-
Securities analyst
P. Heymann.

apan's Ministry of Fi-
llowing deals with foreign
in as GE to help revive Japan's
financial industry. On Jan. 27, a
n for General Motors Accep-
C), confirmed that the company
iating for a portfolio of assets
ver LTCB affiliate. Japan's *Nihon*
spaper reported that the deal
live buying about \$8.6 billion of
about \$1 billion. With GE, Mer-

in Japanese history. That triggered the
nationalization of its primary lender and
second-largest shareholder, Long-Term
Credit Bank of Japan, a month later.

Along with control of LTCB, the gov-
ernment assumed the assets of Japan
Leasing—which MOF officials wanted to
unload as soon as possible. So GE Capital
was able to force the government to
swallow the firm's dud real estate loans.

That leaves GE Capital with a
portfolio of equipment-leasing
and auto-fleet contracts carry-
ing a \$6.5 billion book value.

How much did GE Capital
pay? The company won't say.
But Nayden notes: "The Japan-
ese government has been ex-
tremely flexible, cooperative, and
receptive to new ways of think-
ing." Analysts such as Salomon
Smith Barney's Jeffrey T.
Sprague figure GE paid about
\$4.2 billion up front. The bal-
ance of \$2.3 billion, 35% of book
value, will be held in reserve.
If the leasing portfolio is less
sound than advertised, the com-
pany keeps the \$2.3 billion.

WIDE MARKET. Overnight, GE
Capital will become Japan's
No. 3 leasing concern and get
access to some 70,000 corporate
clients of Japan Leasing. That
could come in handy. Last year,
GE Capital pumped \$575 million
into a joint venture with Toho
Mutual Life Insurance Co. It
could easily cross-market corpo-
rate life insurance plans to these
clients. GE Capital could also ex-
pand into corporate lending.

GE Capital further hopes to
carve out a big share of Japan's
\$42 billion consumer-finance
market. It has acquired Koei
Credit Co. and Lake Corp., both
of which specialize in lending to
individual borrowers who don't
qualify for bank loans, at aver-
age interest rates of 26%.

Rivals aren't going to cede
ground easily. In December,
trading company Mitsubishi
Corp. abruptly cut off talks for a
leasing tie-up with GE Capital
once it heard the American firm
was talking to Japan Leasing.

What's more, ING Groep, Met-
ropolitan Life, and Deutsche Bank are
bidding for Aoba Life, which inherited
the policies of failed Nissan Insurance.

Having a world-class competitor throw
its heft around may well scare the day-
lights out of Japanese rivals. But maybe
that's just the jolt Japan needs to get
its economy back in working order.

By Brian Bremner in Tokyo and
Diane Brady in New York



GIANT STEPS AND DEEP POCKETS

- 1/98** Buys consumer credit company Koei Credit.
- 2/98** Sets up joint venture with Toho Mutual Life Insurance. Cost: \$575 million.
- 11/98** Acquires Lake, Japan's fifth-largest consumer lender. Cost: \$4.1 billion.
- 1/99** Buys equipment- and auto-leasing contracts from Japan Leasing, valued at \$6.5 billion.

DATA: GE CAPITAL, BUSINESS WEEK

will Lynch, Travelers Group, Fidelity Investments, and Japanese banks and brokers also cinching alliances, "the Japanese financial crisis may now be coming to an end," says Eisuke Sakakibara, Vice-Finance Minister for International Affairs.

The Japan Leasing deal dwarfs anything yet completed. When the company went bankrupt with \$17 billion in liabilities, it was the biggest corporate failure

AUTOS

A SWEDISH TIGER IN FORD'S TANK

By bagging Volvo, the No. 2 carmaker inches closer to GM

Last October, Ford Motor Co. learned a lesson: Even in a global auto business glutted with excess capacity, you can't get assets on the cheap. Ford found that out when it made a low-ball bid to snag Korean auto maker Kia Motors Corp. and lost it to Hyundai.

Three months later, the world's No. 2 auto maker is walking away with a prize, the car business of Sweden's Volvo, by paying \$6 billion dollars—billions more than it originally hoped. But Volvo is considered one of the choicest targets in the industry. And the deal, which was expected to be announced on Jan. 28, would help Ford pursue three goals: boost market share, fill a hole in its lineup, and give it a little more momentum in its drive to unseat General Motors Corp. from the No. 1 slot.

BARELY A DENT. After buying Volvo, Ford would have worldwide sales of 7.2 million—a scant 300,000 behind global leader GM and miles ahead of Toyota Motor Corp. and Volkswagen. Ford felt the deal was essential, given the ever-increasing pace of industry consolidation.

And with \$24 billion in cash barely dented by the Volvo deal, Ford may not be finished buying. Even as they were eyeing Volvo, Ford executives were considering combinations with either BMW or Honda Motor Co.—neither of which are likely to march down the aisle willingly. “We intend to be the best auto company in the world, and we haven’t ruled out being the biggest, either,” Ford Vice-Chairman Peter J. Pestillo declared last September when Chairman William

C. Ford Jr. and CEO Jacques A. Nasser took over.

With Volvo, however, Ford would gain much more than just size. In the U.S., Ford officials admit the company’s luxury car sales are weak in Northeastern states, where Volvo does much of its business. In Europe, Ford repeatedly has failed to take its brand upscale. While Jaguar has always aimed at the top of the market, it is now trying to capture an even broader affluent following with its new \$45,000 S-type. But Ford hasn’t competed effectively in the \$30,000-to-\$40,000 price range, where Volvo is strong. “Volvo is a nice fit for Ford because it fills a niche,” says Wendy B. Needham, auto analyst with Donaldson Lufkin & Jenrette Securities Corp. in New York.

If Volvo’s independent-minded shareholders approve the Ford deal, it would be the first transatlantic auto acquisition since Daimler-Benz took over Chrysler Corp. for \$35 billion in November. That deal set auto executives on a tear, convinced that the technology-intense, high-cost industry would collapse as nearly 40 companies scrambled for market share. The alternative is a massive consolidation that, industry execs predict, will reduce

the industry to six major players by 2010. Even now, the new Daimler-Benz is in talks with Nissan, a troubled No. 2 auto maker. In a business where a new model can cost \$3 billion to develop from scratch, “any company producing less than 1 million units won’t survive in a robust fashion,” says Ford’s Nasser.

Casting its car future with Ford

would give Volvo a chance to reinvent itself. It is expected to use its profitable heavy-truck division, which it plans to try to align with Swedish truck maker Scania. According to sources close to the deal, Volvo passed up a similar offer with Fiat, even though the Italian carmaker believed it would pay as much as \$1 billion. The hitch was Fiat also wanted to enter the truck business, which Volvo didn’t want. **HOT WHEELS.** Volvo recognized that it could no longer go it alone, even though its recent lineup is faring well. Swedish auto is known for its box-



YOU AIN'T SEEN NOTHIN'?

Ford may still be shopping: “We’re always prepared to sit down and talk with anyone,” says Ford CEO Nasser

safe cars, has begun to discover the value of attractive automotive design. In the U.S., sales jumped 11.3% last year to 101,172 cars, thanks in part to the newly styled C70 coupe. It now sells a convertible, too. And Volvo is getting ready for its elegantly styled S80 sedan, which starts at \$36,395, well below comparable models from BMW and Mercedes.

Hot new models like those have helped Volvo on an accelerating sales curve. The auto maker expects worldwide sales to reach 500,000 by 2000, with healthy profit margins of 5% to 8%. Hans-Olov Olsson, Volvo’s U.S. president, says the U.S., Volvo expects sales to reach 200,000 cars after 2000. “We have a strong growth strategy in the U.S.,” says Olsson.

So does Ford CEO Nasser. And if another acquisition comes his way,

his pocketbook is open. “The right price is always prepared down and talking to anyone,” he says recently. Today, he says, “tomorrow...”

By Keith W. Johnson in Detroit
Stanley Reed in

VOLVO'S S80 SEDAN HAS WON RAVES





-Morningstar

Rating for 3 years ending 11/30/98
among 3131 domestic equity funds

"INCREDIBLE NUMBERS"

-L/G Research,

Publisher of The No-Load Fund Analyst

"PURE EVIL"

-Communist Party Monthly

TRANSAMERICA
PREMIER EQUITY FUND

50.24%

Return since inception
(10/2/95) - 12/31/98

3.85%

Year as of 12/31/98

2.59%

Annualized from inception
(10/2/95) as of 12/31/98

Capitalists rejoice! The Transamerica Premier Equity Fund grew 33.85% for the one-year period ending 12/31/98* thanks to fund manager Jeff S. Van Harte's remarkable knack for selecting growth juggernauts. If this sort of savvy long-term investing interests you, call 1-800-892-7587, ext. 1610 or visit us at www.transamericafunds.com.

Of course, past performance is no guarantee of future results. Rabble rousers and anti-capitalism propagandists need not apply.



TRANSAMERICA
PREMIER FUNDS

*Average total return since inception (10/2/95) of this fund is 32.59%.

Morningstar proprietary ratings reflect historical risk-adjusted performance and are subject to change each month. Five stars is the highest ranking, representing the top 5% of funds in an investment category. Morningstar ratings are calculated from a fund's 3-year average annual returns in excess of 90-day Treasury bill returns, net of appropriate fee adjustments, and a risk factor that reflects fund performance below 90-day Treasury bill returns. Past performance is no guarantee of future performance. Investment returns and principal values vary, and you may have a gain or loss when you sell shares. For more complete information, including risks and fees, call for a prospectus. Read it carefully before you invest. Transamerica Securities Sales Corporation, Distributor.

COMMENTARY

By Aaron Bernstein

SOCIAL SECURITY: GO REFIGURE

Democrats and Republicans disagree sharply on how to save Social Security. But they agree on two things: the system faces a funding crunch some 30 years hence and investing in the stock market can help fill the gap.

Problem is, both of these views can't be correct. The fear of a gigantic shortfall in funds rests on the Social Security Administration's (SSA) projection of an economy growing at just 1.4% over the next 75 years. But the stock market solution depends upon equities producing inflation-adjusted returns of some 7% a year, which is what has happened over the past three-quarters of a century, when the economy averaged 3% annual growth. "If you believe the Social Security projections, the rate of return on capital will be less," says Jeremy J. Seigel, an expert on long-term stock trends at the University of Pennsylvania's Wharton School.

DEEP GLOOM. The politicians can't have it both ways. Either the economy will grow at far below the historic rates, and there will be a Social Security crisis that the stock market will not be able to rectify. Or the economy will grow at a faster rate, the stock market will continue to rise at a healthy pace, and Social Security will have the funds it needs to keep operating throughout the retirement of the baby boom generation.

What makes SSA take a view that's so pessimistic? The agency doesn't believe that productivity will continue to grow as rapidly as it has since 1995. Agency economists say they are simply being prudent



by projecting a future annual rate of 1.26% for productivity. To arrive at this number, the agency focuses on the 1% average annual increase set between 1973 and 1995 and ignores the more recent spikes that have put productivity gains closer to the historic 2%-a-year average. The SSA views population growth in much the same fashion. It focuses on the trend toward smaller families that began in the 1970s and dismisses the rise in birth rates that has occurred in this decade as a possible aberration.

If the SSA is right, the stock market can't be the savior of Social Security. With subpar productivity gains and slower growth in the labor force and the ranks of con-

sumers, corporate profits are unlikely to expand rapidly. And without higher profits, it's hard to see how equities will continue to rise annually over the future decades. Stephen C. Goss, Social Security's deputy chief actuary, argues that stock gains linked to economic growth are only in the short term. But over time, capital has a fixed rate of return.

As a result, stocks can't deliver the returns even if gross domestic product slows. Experts such as Seigel disagree. And so, no doubt, would Wall Street pros and corporate executives who still think that slow growth means market doldrums.

ALTERNATE MODEL. The SSA isn't totally wedded to its gloomy projections, however. It has an alternate model, in which gross domestic product growth averages 2.14% a year over the next 75 years. At that rate, Social Security is likely to show a slight surplus through 2020, largely because the population grows faster and there are more workers paying taxes for every retiree drawing a government retirement check.

Clearly, no one can predict what will happen over such a long period of time. But if you think that the markets will match their historic performance, you shouldn't be worrying so much about Social Security. And if you buy the notion that we're in for 75 years of 1.4% growth, you have a lot more to worry about than just Social Security.

IF THE ECONOMY PERFORMS AS PREDICTED, CAN THE STOCK MARKET SAVE SOCIAL SECURITY?

Average annual growth rates

	PAST 75 YEARS	NEXT 75 YEARS*
INFLATION-ADJUSTED GDP	3.0%	1.4%
PRODUCTIVITY	2.1	1.3
LABOR FORCE	1.4	0.3

*Social Security Administration projections
DATA: SOCIAL SECURITY ADMINISTRATION, PREAMBLE CENTER

Bernstein covers stock market issues and labor relations. He writes for Washington

High Tech High Fashion



Hi Wall Street

See the Victoria's Secret Fashion Show LIVE online.

On Wednesday, tickers will be racing after the markets close. The Victoria's Secret Fashion Show will be broadcast LIVE, online, for the first time ever. Stephanie, Tyra, Laetitia, Karen, Daniela, Heidi, and twenty more of the most beautiful women in the world hit the runway on February 3, at 7 pm, EST. So get to www.VictoriasSecret.com. It's proof positive that you can turn more than profits on the internet.

VICTORIA'S SECRET

A division of Intimate Brands, Inc. / NYSE: IBI

COMMENTARY

By Mark Hyman

THE OLYMPICS: CORPORATE AMERICA SHOULD SEIZE THE TORCH

If one thing is clear from the Olympics scandal, it is this: The International Olympic Committee thinks it answers only to itself. That is why IOC chief Juan Antonio Samaranch thought he could appoint close associates to investigate others he had handpicked. That's why he thought if he fired a few officials and offered mea culpas, the mess would go away.

But Samaranch—"Your Excellency" to his friends—does answer to a higher authority. It's Corporate America. True, corporations don't run the Olympics. They do, however, pay for them. In Salt Lake City, corporate sponsorship will account for more than half the \$1.45 billion oper-

increased fees from sponsors twenty-fold for the '84 Games—and turned a profit. Now, corporate dollars rush in. Eleven worldwide sponsors—including Coca-Cola, Eastman Kodak, McDonald's, and John Hancock—pay up to \$50 million each to wrap their products with the Olympic spirit.

Some sponsors seem pleased with the IOC's initial house-cleaning.

"They've done what they told us they were going to do," says Ben Deutsch, Coke's Olympic marketing spokesman. But they warn that a few firings and promises won't do the trick. In mid-January, worldwide sponsor United Parcel Service met with IOC officials to call for "more than finger-pointing,"

says Susan Rosenberg, Olympic marketing spokesperson for UPS.

"They showed an enormous amount of leadership," says David F. D'Alessandro, president and chief operating officer of John Hancock Mutual Life Insurance Co. But, he adds, "the real question from a sponsor standpoint is whether [the IOC report] represents a real devotion to change."

D'Alessandro seeks wholesale reform. He

wants a new system for appointing the IOC that will be more democratic and include more athletes. And he wants committee members held to strict conflict-of-interest standards and the IOC audited regularly.

But the corporate sponsors are still hesitant to make the change that would really send a signal that reform is for real: sacking Samaranch. "On balance, he has done more good than harm," says D'Alessandro. That argument grows weaker daily. Sponsors should oust Samaranch and install someone with a reputation for the utmost integrity. Only then will the Olympics shine again.

With William C. Symonds in Boston and Dean Foust in Atlanta



NAGANO '98 FLAGS: Sponsors pay up to \$50 million

ating budget. "As stakeholders in the Olympics, [corporations] ought to be demanding a cleaning of the house," says Boston University Professor Otto Lerbinger, author of *The Crisis Manager: Facing Risk and Responsibility*. Not only do they have the clout to demand changes, it's in their interest to do so. If the public loses interest in tainted Games, sponsorship will be a waste of money.

GOLD RUSH. Two decades ago, the idea of sponsors as the conscience of the Olympics would have been laughable. But in the 1970s, with few corporate dollars behind them, the Games were a financial nightmare. So Peter V. Ueberroth, president of the Los Angeles Olympic Committee,



MARKETING

GM DEALERS AREN'T BUYING

Their parent wants them to focus on image, not price

Chevrolet dealer Gordon Stewart admits his advertising is not pretty. But shouting about prices "sells the iron," says Stewart, owner of three stores in Florida and Michigan. Stewart says it was a bombshell when General Motors grabbed back \$500 million set aside for dealers to produce local ads: "It infuriated dealers across the country."

In Chicago, more than 60 dealers hired former Transportation Secretary Samuel K. Skinner and took GM to court on Jan. 26. Others may follow suit like fighting your parents," says Bill Napleton, a Park Ridge (Ill.) GM dealer. "We don't mean to be difficult but we have to stand up for our rights."

GM is standing up for a principle. It's trying to make dealers go beyond a brand-management strategy. According to GM, a new approach according to GM, is key to restoring the company's flagging market share. It began the controversial market approach that stresses image over price in 1994. Its champion was, and continues to be, Ronald L. Zarrella, then vice president for marketing, now North American auto chief.

"OFF-THE-WALL." But many GM dealers have never signed on. "The reality is that this is a price-driven market," says Merrill Lynch & Co. auto analyst Nicholas Lobaccaro. And even as GM tries to build up the value of its brands, it has matched its rivals with rebate sales needed a boost.

In December, GM decided it was

American Century's GNMA Fund

An Accomplishment Worth Repeating

- *Forbes* "Best Buy" 1993
- *Forbes* "Best Buy" 1994
- *Forbes* "Best Buy" 1995
- *Forbes* "Best Buy" 1996
- *Forbes* "Best Buy" 1997
- *Forbes* "Best Buy" 1998

Average annual total returns as of December 31, 1998	1 Year	5 Years	10 Years	Life of Fund (9/23/85)
GNMA FUND	6.3%	6.8%	8.7%	8.7%

ask for a prospectus with more complete information, including charges and expenses. Be sure to read it carefully before you invest. Please consult a prospectus for information about other share classes. Naturally, past performance can't guarantee future results. Figures are for Investor Class Shares and assume all dividends were reinvested. Investment return and the value of your principal will fluctuate and the final value of your investment may be more or less than what you started with. Fund shares are not guaranteed by the U.S. Government.

"Best Buy" rating recognizes funds that offer better risk-adjusted returns, and lower costs than their peer group. Cost factors, such as load and annual expenses, are weighted three times as heavily as past performance. Funds rated must have been through at least three complete market cycles. American Century GNMA was rated a best buy among GNMA funds for 1993-1998. Number of funds rated "Best" among total GNMA funds for each year: 1993 - 5/29; 1994 - 5/35; 1995 - 5/43; 1996 - 5/47; 1997 - 5/51; 1998 - 7/52. Funds Distributor, Inc. © 1999 American Century Services Corporation

BWK320-11D



AMERICAN
CENTURY

Node?



We're willing to bet you don't think of yourself that way.

Probably you don't think of anyone at your company as a node either. They're users. People. Individuals.

Your network should recognize individuals too. And it can, right now, with Novell Directory Services® (NDS™).

With NDS software, everyone on your network has a unique profile.

They can access the network online to get all the necessary business tools even when they're away from the office. With one password, the network identifies which files and applications they may use, while restricting access to secure or sensitive documents.

NDS-enabled applications monitor the system to correct problems like Y2K before they turn into downtime. NDS is designed to work on a variety of platforms like NetWare®, NT and UNIX®, because different people and departments have different needs.

You need a network of people, not nodes. You need a networking specialist. You need Novell.

www.novell.com/node or 1-800-509-1800



© 1997 Novell, Inc. All rights reserved. Novell, NetWare and Novell Directory Services are registered trademarks and NDS is a trademark of Novell, Inc. in the United States and other countries. UNIX is a registered trademark of X/Open Company, Ltd. in the United States and other countries.

Novell

open/net/works

News: Analysis & Commentary

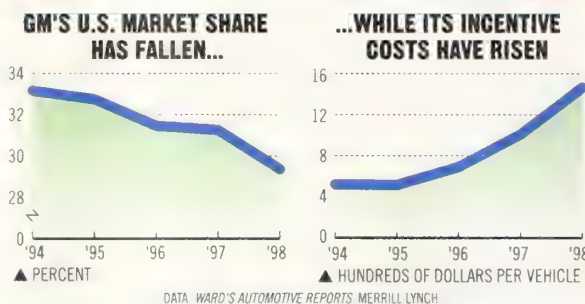
to force dealers to get with the program. It announced that on Apr. 1, the home office plans to take over local advertising—and stop those ads screaming about low prices. “We are taking more control to get a more consistent message,” explains John Middlebrook, GM’s vice-president for vehicle brand marketing. Local ads will now be “tied into the national campaign, rather than something off-the-wall.”

SILVER BULLET? It’s a risky move. Just when the company has finally convinced investors that it’s recovering from last year’s strike and may be able to regain market share, it needs dealers on its side. And there’s scant evidence that the brand-management plan—no matter how hard GM tries—will be a silver bullet. Since 1994, GM’s U.S. market share has sunk from 33.2% to 29.2%, even as it became America’s biggest spender on marketing with an annual ad budget of \$2.2 billion. Says auto analyst Scott Merlis of

Wasserstein Perella Securities: “It’s a noble cause, but it’s a tough battle.”

Ford Motor Co. is already staging a retreat. Ford jumped on the brand-management bandwagon shortly after GM.

IS BRAND MANAGEMENT WORKING?



But now Ford's new CEO, Jacques A. Nasser, dismisses the Procter & Gamble-style approach as inappropriate for Detroit. “That formula won’t work,” says Nasser. “Cars and trucks are very different from consumer products like toothpaste.” Ford has boosted brands

like Lincoln and Jaguar with hot models, but without ballooning billion ad budget.

GM, however, is “absolutely not” to throttle back on brand management, says Middlebrook. In fact, he predicts the payoff is around the corner. In January, GM’s marketing department in New York aimed for a 32% market share in the U.S. by the end of 1999. “The final measure of success will be market share, and we’ll get that,” says Middlebrook. “It’s time to build brand equity.”

Low, low prices are driving buyers, dealers, and the dealers say. “In six months, they’ll be back to us,” says Nasser. “We can’t move the metal,” says Nasser. But unless GM makes deals with its dealers, its ambitious goals are headed for the ditch.

By Keith Naughton in Detroit

HOLLYWOOD

WHAT GAME? LOOK AT THE AD!

Moviemakers score big with Super Bowl commercials

You know it’s Super Bowl season in Hollywood. Top talent is switching focus from movies to 30- and 60-second ads that dazzle, that wow, and keep millions of sports fans glued to their sets during the commercial breaks. And with average production budgets hitting \$1 million—triple the average cost of making a typical commercial—top-rung directors and special effects houses are finding the small-screen work lucrative.

Director/producer brothers Joel and Ethan Coen, whose 1996 *Fargo* was nominated for a Best Picture Oscar, are producing a commercial for Honda Motor Co.’s Odyssey minivan. George Lucas’ Industrial Light + Magic is reanimating Steven Spielberg’s E.T. for Progressive Casualty Insurance Co., as a spokesman who urges drivers to buckle up. And Michael Bay, director of last summer’s *Armageddon*, is being paid \$30,000 a day to give Nike Inc.’s spot high-tech pizzazz.

And why not? Companies that advertise on the championship telecast pay dearly for it—\$1.6 million for one



half-minute—but are rewarded with a domestic audience that is expected to exceed 140 million. The only thing that comes close is—what else?—the Oscars. **FINANCIAL “FX”.** So companies like first-time Bowl advertiser First Union Corp. are willing to spend a lot on production to make sure they’ll be noticed. “We wanted to run with the big dogs,” says Jim Garrity, First Union’s senior vice-president. “It’s all about breaking through the clutter.” First Union has hired ILM, creators of the *Jurassic Park* dinosaurs, to craft a \$1.5 million Super Bowl spot dramatizing the high-tech side of finance with a computer-generated

shot of a helicopter carrying off a bus.

The Super Bowl is the big show. But cranking out spots for the screen is becoming a year-round source of earnings for moviemakers. At both ILM and Digital Domain (the *Titanic* fame), ads are for nearly one-third of revenues. And commercials offer nice margins—usually 20%. One partial cost-effective for Special effects geared for movies can be resurrected for lowering overall

and raising that old bottom line.

Major Hollywood studios want of the action, too. Both Sony Pictures Imageworks special-effects unit and Data Images, computer graphics specialists on the animated *Antz*, are beefing up advertising production teams. Says Morris, Lucas’ Digital president oversees ILM: “Advertisers are looking for something that’s never done before.” Put that together with the rapidly growing number of ads willing to fork over millions, and Spielberg might be tempted.

By Ronald Grover in Los Angeles

**THEM:
Exclusive.**

**DELOITTE
CONSULTING:
Inclusive.**

One well-known consulting firm insists on dealing only with senior managers. Because, they claim, only senior managers have the power to make change happen.

We believe they're only half right.

While senior managers may have the power to initiate change, it takes all your employees to make those changes stick.

At Deloitte Consulting, our collaborative working style gets your entire organization – from the corner offices to the cubicles – to buy into the changes at hand. And ensures the transfer of the additional knowledge and skills they'll need to deliver the promised returns of any new strategies or technologies.

For results you can count on today.
And build on tomorrow.

A very different approach. For very different results.

**Deloitte & Touche Consulting
Group**



Hilton HHonors® and your
American Express® Card
can earn you *double miles*
and *double points*.

Free trips twice as fast. Sounds good. We thought so. As a member of Hilton HHonors, the hotel program business travelers prefer, charge your business-rate stays at Hilton hotels with your American Express Card and earn both double points and double miles with your choice of eight participating airlines including United, Delta, Northwest and Continental. This offer is available between January 4 and March 31, 1999 so make your plans on the double. Because earning free trips twice as fast makes them twice as good. For worldwide reservations, check with your professional travel agent or enroll in Hilton HHonors or make reservations visit www.hilton.com or call 1-800-HILTONS.



To apply, call 1 800 THE CARD

Naomi Campbell and Larry King,
National Italian American Foundation Gala,
Hilton Washington & Towers.

Double **points**. Double **miles**.
Double **smiles**.

Earn double hotel points for free nights in
Hawaii or at more than 400 locations worldwide.



Earn double miles
towards free flights.



It happens at the Hilton

Available for stays from January 4, 1999 through March 31, 1999. Hilton HHonors membership, earning and redemption of points are subject to Hilton HHonors Terms and Conditions. Normal rules for earning HHonors points and airline miles apply. Refer to your HHonors membership materials for rate and restrictions. Participating airlines include Alaska Airlines, America West Airlines, Continental Airlines, Delta Air Lines, Hawaiian Airlines, Northwest Airlines, TWA and United Airlines. At participating Hilton and Conrad International hotels outside the U.S., you can earn double points and double miles with your American Express Card. Offer sponsored by Hilton. © 1999 Hilton Hotels.

BY KELLEY HOLLAND

LESS WEEK A SCANDAL

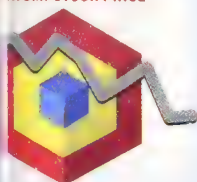
NEONE SNEAKING A BUSINESS WEEK?" was the headline of a Feb. 5, 1996, BUSINESS WEEK article. On the feds answered: the heavy trading BUSINESS WEEK observed in the '90s "Inside Wall Street" column has resulted in criminal charges against stockbrokers. The Feds said that the brokers made more than \$6 million in commissions mentioned in *Inside Wall Street* on days before the column faxed from Bloomberg News, which distributes the magazine. The alleged fraud lasted from 1995, to January, 1996—the article appeared.

LOSING BELL

WITCHEROO

fickleness of Web sites. One day, Microsoft Internet upstart Inktomi was a partner. Then, Microsoft changes its mind. On Jan. 26, Inktomi said it was replacing its search service with Microsoft's MSN portal AltaVista's (page 88). Microsoft says the move will have a "substantive effect" on Inktomi shares. On Jan. 26, Microsoft's Computer, Internet plans for a public offering of AltaVista shares.

INKTOMI STOCK PRICE



9 JAN 27
DOOMBERG FINANCIAL MARKETS

Larry Smath, a broker at Renaissance Financial Securities, pleaded guilty on Jan. 26 to one count of conspiracy to commit securities fraud. Three other brokers, Seth Glaser and Peter Cohen of Renaissance and Joseph Falcone, formerly of Prudential Securities, were also charged.

WHEN DAY TRADING IS A NIGHTMARE

ONLINE TRADERS, BE WARY. On Jan. 27, Securities & Exchange Commission Chairman Arthur Levitt warned investors that, because of delays in executing trades, online trading may not be instantaneous. The big danger, he adds, is in highly volatile stocks: "Take precautions to ensure that you do not end up paying much more for a stock than you intended." Levitt also cited day trading as "highly risky." State regulators are cracking down on firms promoting day trading and the National Association of Securities Dealers is urging brokers to warn online customers of risks.

PRICEY CARE IS IN, HMOs ARE OUT

BUSINESSES PAID 6% MORE per capita for employee health care in 1998, nearly twice the inflation rate of overall health-care costs, according to a new study by consultants William M. Mercer. Why? One factor is that more workers enrolled in higher-cost indemnity plans, and enrollment in health maintenance organizations and point-of-service plans fell. The shift away from HMOs "is a symptom of a tight labor market," says John Sheils, a vice-president at The Lewin Group, health-care consultants. "Employers can't afford to alienate workers by forcing them into an HMO."

HEADLINER: ALLEN ANDREAS

A TOUGH ROW TO HOE

It's the end of an era. On Jan. 25, Dwayne Andreas, 80, the autocratic head of Archer Daniels Midland for 28 years, resigned as chairman. He handed the reins to nephew Allen, a law school graduate who was named CEO in 1997.

Wish him luck. Times have been tough for commodity producers. Earnings have fallen 38% in three years, and the stock is at 1995 levels. ADM's \$3.5 billion in recent investment has not paid off. "It has been a Roach Motel,"

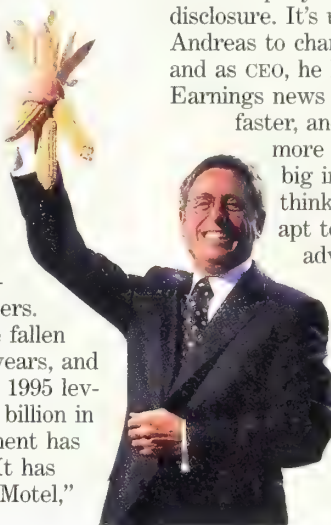
says Prudential's John M. McMillin. "Capital goes in, but returns don't come out."

Also galling to investors is that ADM is run like a private company—with limited disclosure. It's up to Allen Andreas to change that—and as CEO, he has started. Earnings news comes out

faster, and he is also more accessible to big investors. "I think he's more apt to take

advice," says Sarah Teslik of the Council of Institutional Investors.

By
Andrew
Osterland



THE SURCHARGE THAT FELL TO EARTH

REVERSING COURSE: JUST two weeks after imposing a \$1-each-way fee for any domestic tickets not purchased via its Web site, Delta Air Lines on Jan. 26 dropped the surcharge. Delta had expected other carriers to follow suit—but only Alaska Air did. So Delta was out on a limb, with its fares on competitive routes suddenly a little higher. Delta also faced a backlash from travel agents and some consumer advocates. "The marketplace spoke, and we listened," says a Delta spokeswoman.

A SECOND WIND FOR BIOTECH DEALS?

WARNER-LAMBERT IS GIVING its drug pipeline a boost. On Jan. 26, Warner announced a \$2.1 billion stock deal to ac-

quire Agouron Pharmaceuticals, maker of the leading protease inhibitor for HIV. The move also gives Warner access to a number of drugs in the works at Agouron, including one to block blood-vessel growth in tumors. Industry watchers figure the deal could mark the beginning of a new round of biotech consolidation. "With biotech valuations low," says Legg Mason Wood Walker analyst Stefan Loren, "the economics are starting to tip toward buying."

ET CETERA...

- MCI WorldCom is expanding its high-speed Internet access service for customers.
- Burlington Industries plans to cut 2,900 jobs and shrink U.S. manufacturing.
- HP and Silicon Graphics will offer Linux' operating system on server computers.
- J&J will sell a cholesterol-cutting spread as food, not a dietary supplement.



You sold her an

extended

warranty that

isn't worth

the paper it's printed on.

SHE believed you sold her a promise. But when the product broke and she asked for someone to make good on their word, no one did. Because no one could. The company that backed the extended warranty was out of business. Now this customer no longer trusts you. So she will shop elsewhere. Worse still, she will tell her friends. And the only thing that spreads faster than good word-of-mouth is bad word-of-mouth.

This is the real world companies live in. How can AIG help? By doing things others can't. By taking what you know about "insurance" and turning that notion on its head.

Who insures you?

Take our Extended Warranty Plans. When you sell a customer an extended warranty, you're selling them more than a piece of paper to replace a broken microwave oven or repair an automobile. This is about your word.

In a climate where warranty products are too often an empty promise by companies that can't make good on their word, the AIG Companies stand alone. Our Warranty Products division provides turnkey service programs, complete with 24-hour customer hot lines, all tailored to meet the specific needs of your company and your customers. And because our reputation is solidly backed by Triple-A-rated financial strength, you can rest assured that the AIG Companies will be there for you.

We've built our business on fulfilling promises. Which is why we've grown in 80 years to become one of the world's leading insurance organizations. So you can rely on us and your customers can rely on you.

Call us directly at 1-800-250-3819 or e-mail us at warranty@aig.com to find out more about our Extended Warranty Plans.

What's the worst that could happen? That's what we think about every day.

THERE'S AN EMERGENCY BOARD MEETING. THE CFO NEEDS NUMBERS BY NOON!



*You Need Them
Fast
You Need Them
Right
You Need
CFO Vision* TM



When you're under pressure to make critical business decisions, CFO Vision software delivers the timely and accurate information you need.

CFO Vision is the single source for all your key business information, both financial and non-financial—readily accessible for interactive analysis and reporting. It's never been easier to see product and customer profitability, the potential impact of a reorganization, or key performance indicators—in any currency.

You can view your business from all angles because CFO Vision is the first financial consolidation and reporting software that integrates flexible multidimensional analysis (OLAP), all from one vendor...SAS Institute, the leading name in decision support at more than 2900 companies worldwide including the Fortune 500.

For a closer look, give us a call or visit www.sas.com/cfo



SAS Institute Inc.

The Business of Better Decision Making

E-mail: bw@sas.com

www.sas.com/cfo

919.677.8200

In Canada 1.800.363.8397

SAS is a registered trademark, and CFO Vision a trademark, of SAS Institute Inc.

Copyright 1997 by SAS Institute Inc.

BY LEE WALCZAK

GOP TAX CUT: THERE'S A WILL, BUT IS THERE A WAY?

President Clinton's euphoria after his State of the Union message wasn't just a reaction to glowing TV ratings. Clinton seemed convinced that his vow to reserve 62% of the get surplus for saving Social Security would block Republicans from passing costly new tax cuts.

GOP hope springs eternal. While they admit Clinton's is clever, Republican lawmakers are countering with a Solution: They aim to use the remaining third of the surplus for tax relief. True, Clinton has plans for the money, but they're paying for a Medicare fix, more education initiatives, and education initiatives. Republicans will ignore all but the de-quest to free up funds for a Reagan-style cut that can entice voters and unite the GOP's factions.

It's swell. But even if the projected \$700 billion surplus is for real, the GOP can't afford a wish list. Here are some of the goodies: **Income tax redux.** Alarmed that the tax burden is peacetime high of 21%, many GOP lawmakers want across-the-board rate reductions. A group of senators, including Assistant Majority Leader Don Nickles of Oklahoma, want an immediate 10% income tax rate cut. Majority Leader Richard K. Armey would slash all federal taxes, including payroll tax, by 10%. But even a 10% tax rate cut would cost at least \$700 billion over 10 years, according to congressional estimates. It would eat up the entire surplus. A senior Senate GOPer: "We'll find the money."

Fun. Republicans have promised social conservatism they'll ease the squeeze on two-earner married couples. They don't want to have to choose between love and money, says Texas Senator Kay Bailey Hutchison, sponsor of legislation to eliminate the marriage penalty. But even limited reductions cost upwards of \$50 billion over 10 years.

Business breaks. Already, business lobbyists are jostling for favors. The National Association of Manufacturers backs a rate cut as a booster shot for the economy. But the National Federation of Independent Business and other small-business groups want more. Says top NFIB lobbyist Dan Danner: "Our priorities would be eliminating the estate tax and decreasing payroll taxes." Friendly lawmakers, including House Ways & Means Committee Chairman Bill Archer (R-Tex.), have long backed cutting levies on estates over \$650,000.

Of course, before these ideas stand a chance, there has to be some tiptoeing over the third rail, at least as long as Clinton's vow to fix Social Security remains popular. Republicans "are going to first have to agree on a Social Security bill," says Representative Charles B. Rangel (D-N.Y.), ranking Democrat on Ways & Means. "Then we'll decide on a tax cut." But with impeachment fraying Hill tempers, a pension deal will be elusive.

A far tougher problem for GOP tax-cutters may be cost. If they just staple all their proposals together, the price tag would be a tempting target for Clinton and his party.

To complicate matters, Clinton's fancy footwork on Social Security could carry over to taxes. He may try to pass off his new individual retirement savings plan as a tax credit. Why? To claim the proposal is actually a \$350 billion tax cut. "You're not going to see us in a no-tax-cut world," vows a senior White House aide. "It will be more like, 'Our tax cuts are better than yours for working families.'"

If Republicans are to win that battle, they'll have to come up with a tax package that placates the party's constituencies—without shredding GOP claims to fiscal restraint. Normally, this would be a no-brainer. But nowadays, even GOP die-hards wonder whether their Hill team can pull it off.

By Howard Gleckman, with Amy Borrus



ARCHER: Cut the estate tax

CAPITAL WRAPUP

PENSION PALAVER?

Whether Social Security Committee or a bipartisan panel to come up with a fix for the system could be in the cards. Senator Judd Gregg (R-N.H.) chairs a Senate GOP task force on Social Security, may soon call for a top White House aide doesn't like the idea, though the Administration will sound out congressional leaders before committing. The fix would be given only a few weeks. Says Gregg: "We've got to get the President in the room."

CAPITOL HILL ROULETTE

► Watch for a jackpot of antigambling legislation in Congress this year. Representative Frank R. Wolf (R-Va.) has offered a bill to let states withhold docking rights for "cruise to nowhere" casinos. Federal law lets such ships dock even in states that ban gambling. A key backer: Representative Wayne T. Gilchrest (R-Md.), subcommittee chair with control over cruise ships. More bills are likely as foes try to capitalize on a national gambling commission report due out in June.

CRACKDOWN ON SMOKES

► The White House isn't quitting on efforts to boost antitobacco funding for the Food & Drug Administration. While the courts and Congress haggle over its right to regulate tobacco, the agency is moving to limit kids' access to smokes. And the FDA's \$34 million program will get a big boost in President Clinton's fiscal 2000 budget, sources say. But the proposed increase may not fly in Congress, which rebuffed a similar \$134 million proposal last year.

Hassle Free Shopping

With Something for Everyone

Kohler Chablis™ Sink
Model# K-20817

Toshiba™ DVD Player
Model# 2109

Makita Driver-Drill
Model# K-20817

Hasty-Bake Ch...
Model# 414-Su



Intrada Rooster
Model# CA9067

Gund™ Minnie Mouse
Style# 7219

Spike
(Not For Sale)

Krups Espresso
Novo 2000
Model# 984-41

We're changing the way you shop @ www.buyitnow.com. You'll find great selections, competitive prices, and your own **personal shopping assistant** to help you with all your needs. Visit one of our 8 BigStores™ for brand name toys, tools, gifts, home electronics, housewares, and lots more. We make shopping hassle-free by offering four guarantees: price, security, privacy and 100% customer satisfaction. Shop our site @ www.buyitnow.com or phone our e-Reps™ @ 1-888-55BUYIT. Why shop anywhere else!

BuyItNow

Changing the Way You Shop

Shop Now @ www.buyitnow.com – Secure, Fast &

BY JOHN TEMPLEMAN

WASHINGTON IS MAKING IT HARD FOR RUSSIA TO HELP ITSELF

en Defense Secretary William S. Cohen unveiled a plan on Jan. 20 to pump an extra \$6.6 billion into U.S. missile-defense programs, the Russian response would "Nyet!" Such a move would require Russia to make big changes in the Anti-Ballistic Missile Treaty, a cornerstone of arms control for nearly three decades.

But Moscow is in no mood to make concessions of any kind. Secretary of State Madeleine K. Albright downplayed the growing tensions during a Jan. 25-26 visit to Moscow.

But ongoing bitter rows over issues such as U.S. air strikes against Iraq to curb proliferation and Russian economic sanctions have sunk U.S.-Russian relations to their lowest since the end of cold war. And Clintonian American policies are only making matters worse.

Analysts fret, domestic instability in a weakened Russia and the growing rancor over foreign policy could provoke Moscow to take a much more aggressive stance in hot spots around the globe, from Kosovo to Iraq.

Washington's unsubtle mix of punishing and promising realigning Russians of all political persuasions. U.S. actions "make Russia's liberals and moderates very uncomfortable," says Alexei G. Arbatov, senior and deputy chairman of the Duma's Defense Committee. "And they are provoking our right-wingers, nationalists."

It's a dangerous situation. Since ailing President Yeltsin appointed him four months ago, Prime Minister Yury M. Primakov has worked to restore political stability at the cost of abandoning economic reform. As a result, Russians have even less hope than ever that their lives will improve anytime soon. The risk is that desperation will provoke a serious backlash. "We have to hope that the weapon doesn't get smuggled out," says Michael Mc-

Faul of the Carnegie Endowment for International Peace.

Russia badly needs financial aid and debt restructuring. Washington is happy to pay Russia for dismantling nuclear weapons or for programs to help small businesses and banks. But, along with the International Monetary Fund, it balks at another huge government bailout. Both want genuine reforms in return for a rescue.

Unfortunately, Washington is making it harder for Russia to help itself. The Administration may, for example, curb

imports of low-priced Russian steel because U.S. producers allege that it is being dumped. And Clintonites oppose Russian sales of conventional arms, which could generate hard currency to service debt, to countries such as Cyprus. To sanction Russia for selling weapons technology to Iran, Washington may shelve plans to increase to 30, from 16, the number of U.S. satellites that Russia can launch through 2000.

But actions to punish Russia for unacceptable behavior in one domain can stymie efforts to moderate unwelcome conduct in another. Hammering Russia's world-class space-launch business, for example, is a blow to moderates who want to stop Russia's de-

fense industry from peddling weapons to terrorist regimes and rely instead on commercial sales. "The U.S. is basically pressing Russia into an alliance with Iran," says Pavel Felgenhauer, a defense expert at Moscow's *Segodnya* newspaper.

American policy seems to rely on the hope that time and the need for money will bring Moscow into the Western economic orbit. Meanwhile, though, the contradictory signals coming out of Washington are penalizing Russia in the very areas in which it can compete in global markets—and help itself in the process.

By Stan Crock in Washington, with Carol Matlack in Moscow



TENSE? Albright and Primakov

GLOBAL WRAPUP

IN REELS AFTER SHAKE-UP

Middle East is still reeling from Jordan's Jan. 25 coup in which King Hussein, 63, fired his son, Hassan, as Crown Prince after 39 years and named his oldest son, Abdullah, 37, as successor. With tensions high among Jordan's immediate neighbors, the timing of Hussein's death was fraught with risk. Israel, for example, is in the thrall of a bitter peace process, while Iraqi strongman Saddam Hussein's grip on power seems to be slipping.

Abdullah's lack of political experience makes many Jordanians nervous. The savvy Hussein survived assassination attempts and an abortive putsch by the Palestine Liberation Organization in 1970. Abdullah's wife, Rania, comes from a well-known West Bank Palestinian family—a worrisome connection to some. But unlike his scholarly uncle, Abdullah has his father's common touch. As head of the Army's Special Forces, he has military backing, as well as the support of powerful Bedouin tribes.

Hussein publicly chided his brother

for mishandling domestic dissensions during his six months' absence in the U.S. for cancer treatment. Hassan has also faced criticism of his weak response to Saddam's recent vitriolic attacks on Jordan. Now, with his father again needing to return to the Mayo Clinic on Jan. 26, Abdullah may have to lean on Zeid bin Shaker, the King's cousin and confidant, and Abdel Hafez Mirai Al-Kabneh, head of the Jordan Armed Forces, for advice. But there will be many anxious moments as Abdullah proves his mettle.

By Kirk Albrecht in Amman

STRATEGIES

SOUTHWEST'S NEW DIRECTION

It's adding longer flights to its bag of tricks

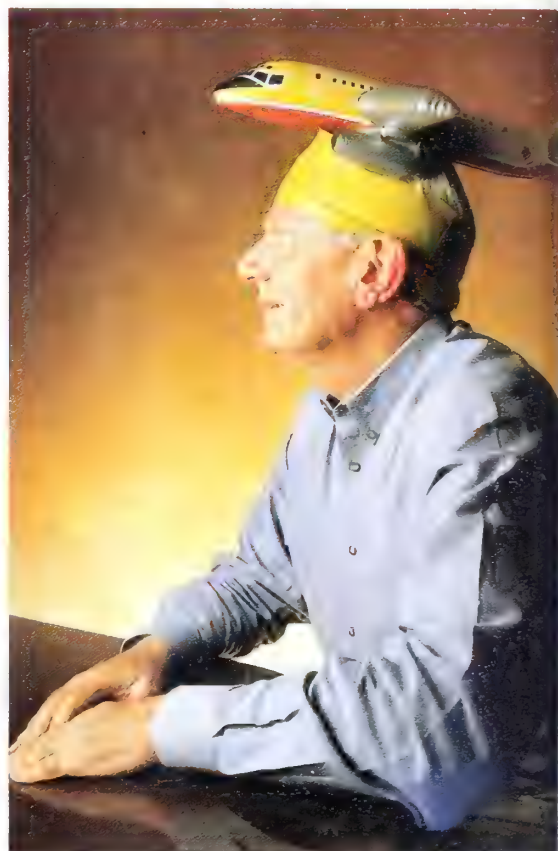
Southwest Airlines Co. executives swear that their first nonstop transcontinental flight last Thanksgiving Day—between Baltimore and Oakland, Calif.—was a one-time experiment. The \$99 one-way tickets filled the plane, and almost half of the passengers had never flown Southwest before. The only glitch: So much trash accumulated during the flight that some of it was inconveniently stowed outside the rest rooms. Chief Executive Herbert D. Kelleher insists there's no immediate plan for more such flights, though he admits "the potentiality is there."

That potential isn't lost on anyone tracking Southwest these days—including the American Airlines Inc. spy who flew along on the Baltimore-Oakland trip. Long the most successful purveyor of cut-rate, short-haul flights, Southwest in the past year has sharply stepped up its expansion into longer, nonstop trips on routes such as Baltimore to Las Vegas (2,099 miles) and Austin, Tex., to Los Angeles (1,234 miles). And it's adding one-stop trips through places like Nashville and Kansas City for travel coast-to-coast. The prospect of Southwest going long-haul on a grand scale is "the genie [rivals] always hoped would not come out of the bottle," says analyst Kevin C. Murphy of Morgan Stanley Dean Witter. He believes an even bigger push is likely in the year ahead. "It will really rewrite the economics of the airline industry."

EASTWARD HO. Southwest won't say just how profitable its long-haul routes are. "All I can say is they haven't seemed to drag us down much," says Kelleher. Thanks in part to lower fuel costs, Southwest posted record earnings last year of \$433 million, a 36% gain, on 9% higher revenues of \$4.2 billion. Its operating margin hit 16.4%, the best since 1981. This year should be even bet-

ter. The growth in longer flights should help fuel earnings growth of 14%, to \$496 million, this year, while profits fall for most of the industry, Murphy estimates. Adds James R. McGlynn, a vice-president at Tom Johnson Investment Management in Oklahoma City: "As they go into more long haul, they should be able to still maintain their margins." His money management firm holds more than 2 million Southwest shares.

Certainly, there's still plenty of room for Southwest to expand its traditional short-haul flights. It now flies to 52 cities but has barely scratched the densely populated East Coast, where it first started serving Baltimore in 1993 before moving into Florida, Providence, R.I., and Manchester, N.H. Following its strategy of favoring uncongested secondary airports, Southwest in March will move into New York with service to Islip, Long Island, about 40 miles east of Manhattan.



This is "the genie [rivals] always hoped would not come out of the bottle," says one analyst

CEO KELLEHER: ARE COAST-TO-COAST NONSTOPS N...

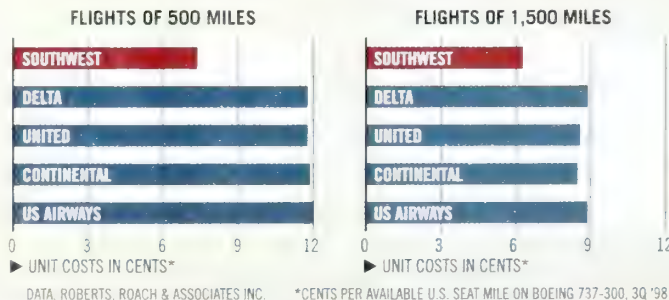
Two other new cities, probably on the East Coast, may come this year. Southwest has done at least as well in the eastern markets as elsewhere: In the year flying between Baltimore and Los Angeles, traffic soared nearly tenfold.

Moreover, because Southwest is attacking the bigger carriers head-on, the risks of a sharp price war are high.

With nearly 3 million passengers a year on Long Island Sound, Southwest should be successful even if it doesn't lure many Manhattanites. Elsewhere, counterattacks by JetBlue, Delta's MetroJet, and United, and Delta's press could dent Southwest's profitability, analysts say that with lower costs and a profit balance sheet, Southwest should be able to survive. The biggest risk

LOW-COST LEADER, SHORT OR LONG

As it adds longer flights, Southwest retains its advantage



aces as it moves into longer says one rival airline exec, is wing its roots: "It's very much culture issue, how well they can doing what they do well."

lowest downplays any suggestion shifting focus. About 80% of its is still on flights shorter than es. "We're built for the short-haul s, and we know that," says Chief al Officer Gary C. Kelly. Indeed, ne's very identity is wrapped up underdog tradition—and in the ance of Kelleher, the chain-smok-d Turkey-swilling funnyman who outhwest's legendary esprit de ast stunts include the time Kelle-n-wrestled another CEO for the o an advertising slogan. He lost got to keep using the slogan.

THREAT. Kelleher claims that est never would have jumped ively into routes of 1,000-plus not for changes in the federal ax in 1997 that were pushed by arriers. The new system replaces ntage tax with one that includes er-segment fee that hits low-fare harder. But some competitors that Southwest would have strongly into long hauls anyway. e dug all the shallow holes," says Dutta, senior vice-president for g at United Airlines Inc. And he at in Southwest's core markets, e now got competition" from the low-fare units.

he other hand, Southwest's success er routes will put growing pres-the profits of its bigger competi-athwest's cost advantage is built 20-minute gate turnarounds; an all-Boeing 737 fleet, including 7-700s that can fly cross-country ; and a more productive work-at edge shrinks on longer flights, still significant. Roberts, Roach & es Inc., an airline consultant in d, Calif., says Southwest has at 59% cost advantage over bigger flights of 500 miles, and a still 5% lead at 1,500 miles. "It's a eat," says a rival airline exec.

long-haul flights as a growing ts arsenal, Southwest has opened l front in its war on higher-cost Already, nonstop flights longer 00 miles account for more than Southwest's capacity, up from e years ago, estimates Samuel ick, an analyst for PaineWebber the final analysis, Southwest's opportunities are bounded by er demand for lower fares," he more travelers look for ways to ennies, that demand, long or ems almost limitless.

Jenny Zellner in Dallas, with reports

FLYING ON A DISCOUNT AND SOME PRETZELS

No reserved seats? No hot meals? No problem, says Dr. Irving Weinberg. "I need to lose weight anyway," cracks the 42-year-old M.D. and president of PEM Technologies, a Bethesda (Md.) medical-equipment company, as we chat aboard a 7:30 a.m. Southwest Airlines flight from Baltimore to Oakland, Calif. Ahead of us loom seven hours of flying, a 25-minute stop in Kansas City, and three servings of snacks. The payoff: a transcontinental ticket that is far cheaper than rivals'.

There are other, less obvious advantages to flying one of Southwest's new no-frills flights cross-country,

food banquet begins with a bag of mini-graham crackers and moves on to a ham stick, sesame crackers, a cheese wedge, a NutriGrain Twist, nuts, raisins, and drinks.

PERK TALK. With no movies or music on the flight, many quickly pull out laptops or legal pads. As with all Southwest flights, those who want conversation and leg room sit in "the lounge"—two rows of seats facing each other along the emergency-exit aisle that offers fliers a chance to chat and exchange business cards. There, the discussion soon turns from children and work to the perks we've sacrificed to fly cheaply. Cy-

belle Lewis, 34, a museum designer for Douglas/Gallagher, an architecture firm in Washington, D.C., complains that she must drive an hour to Baltimore—even though Ronald Reagan National Airport is five miles from her Arlington (Va.) home.

She also laments the loss of first-class pre-boarding and family vacations underwritten with frequent-flier miles.

Southwest has a

mileage plan, but it flies to destinations such as New Orleans or Albuquerque, not Hawaii or London. Says Lewis with a sigh: "I was a Preferred Plus on US Air."

But that seat-of-the-pants quality is just the ticket for Weinberg. He settles into a lounge seat and is soon raving about Southwest's flexibility on things like carry-on luggage. "I used to carry 200 pounds of equipment," he says. "It was never a problem on Southwest. Other airlines would say, 'That has to go cargo.'"

Weinberg also appreciates the jokes that flight attendants use to spice up announcements. But try as he might this time, Dr. Weinberg can't coax a joke or song out of the crew. "I think they were sleepy," he explains after our flight has finally touched down. Or maybe, after seven hours of passing out peanuts, they're shell-shocked.

By Roy Furchgott at 39,000 feet



WHO NEEDS A MEAL? Weinberg likes the jokes

though. For starters, a noticeable air of congeniality exists among my fellow passengers. It's almost a requirement, since we have to work out things like seat assignments on our own. One passenger lugs aboard a big brown bag of food to share with his seatmates.

Judging by my flight, many who are jumping aboard as Southwest expands into longer routes work for penny-pinching companies that don't want to spring for the sky-high ticket prices big carriers charge for last-minute travel. David Grossweiler, a 30-year-old engineer for Butler Manufacturing Co., booked a flight to his Kansas City headquarters six days ahead. He says other airlines wanted to charge \$850, while the Southwest flight was \$356. "Five hundred dollars seemed like too much for a small food tray," he says.

But if the food isn't sumptuous, at least we won't starve. Our snack-

COMMENTARY

By Mike France

IMPEACHMENT: DOES THE RULE OF LAW REALLY RULE?

It's hard not to wonder, these days, what made Republicans think they could win the battle for the hearts and minds of the American public. In spite of polls showing that voters want Clinton to stay in office, the GOP clung to the belief that it could convince people the President has done something serious enough to warrant removal. Party leaders hoped to do this by arguing that the impeachment wasn't about Clinton's private life but about a holy principle: the rule of law. Day after day, House prosecutors hammered away at the same theme: that if Clinton were to get away with his alleged crimes, it would undermine the principle that no person is above the law and cause people to lose faith in the American legal system.

Maybe so. But before betting the future of the party on this proposition, Republicans should have looked more carefully at what the rule of law really stands for. Henry Hyde & Co. used the phrase as a bumper-sticker slogan, but it's actually a highly evolved philosophical concept. Essentially, the term describes a legal system in which people are governed by impartial, fixed rules, in contrast to the arbitrary rule of man.

CLOSED DOORS. In his classic 1964 book on the topic, *The Morality of Law*, Harvard Law School Professor Lon L. Fuller determined that eight criteria need to be met for the rule of law to exist. In vastly simplified form, they are as follows: First and foremost, there have to be rules. Second, the rules should be created in a public forum and widely disseminated. They also have to be (3) stable, (4) consistent, (5) clear, and (6) impartially enforced. Moreover, the rules (7) should not retroactively

punish people for actions that were legal when committed or (8) attach blame unless a person acts intentionally or negligently.

While most Americans probably couldn't articulate Fuller's eight principles, they have a deeply ingrained sense of when these edicts are being violated. And almost from the beginning, the impeachment trial made a mockery of the ideals that constitute the true meaning of the rule of law. The procedure was basically made up as it went along, in private, and in

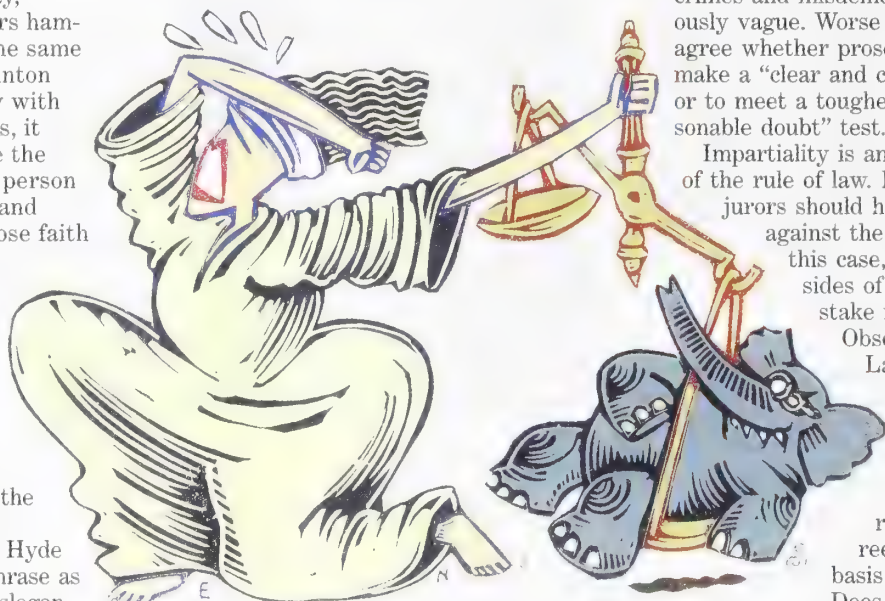
of men that we strive to avoid. Yet in the impeachment trial, many key procedural decisions—such as what type of evidence would be admitted and whether there would be witnesses—were made on the fly.

PROVE WHAT? What of the requirement that the law should be clear? In criminal trials, judges offer jurors a precise definition of the crime charged, and jurors are supposed to apply that standard literally to the facts of the case. But the key term in the impeachment trial, "high crimes and misdemeanors," is notoriously vague. Worse yet, nobody can agree whether prosecutors need to make a "clear and convincing" case or to meet a tougher "beyond a reasonable doubt" test.

Impartiality is another cornerstone of the rule of law. Neither judges nor jurors should have any bias against the accused. But in this case, senators on both sides of the aisle have a stake in the outcome. Observes Harvard Law School's Alan M. Dershowitz, "One of the great things about a real trial is that the jurors don't run for reelection on the basis of the verdict. Does all this mean

that the impeachment proceeding has been illegal? Not necessarily. Senate Majority Leader Trent Lott (R-Miss) had broad freedom to structure the trial as he saw fit, and there was never any requirement that it be a typical criminal case. But what happened was so far from a typical legal proceeding that the impeachment never had a chance of attaining any moral authority. In hindsight, it appears that the Republicans got things exactly backward. The problem wasn't that Americans didn't know what the rule of law meant. It was that they did know.

France actually read *The Morality of Law* a decade ago at Stanford University Law School.



complete disregard for ordinary notions of due process.

That's not entirely the Republicans' fault. The Constitution requires that impeachment be a political rather than a legal procedure. But because the trial strayed so far from rule-of-law ideals, the GOP never had much of a chance of using it as a vehicle to change the public's mind. No matter how strong a case the House prosecutors made, citizens were unlikely to accept the process as legitimate.

Start with the fundamental requirement that the law should be fixed and stable. There's good reason for this principle: If the people in power got to invent the law as they went along, we'd have the very rule

Q: In corrections and bear markets since 1926, small-company stocks have performed better than large-company stocks.

- True
- False



A: False

Small-company stocks have outgained large-company stocks over the last 70 years. But in market declines, large-capitalization stocks have fared much better. The reason? Large caps represent shares of well-established companies that investors often turn to in times of volatility. Also, the shares of such seasoned companies are more actively traded and are easier to buy and sell, making them more attractive in weak markets. Long term, you can enjoy extra returns from small stocks, but large caps can better endure sharp declines in the short run.

Source: Ibbotson Encorr, Fidelity Investments, 1998

When you're looking for opportunities in
large cap funds,
 look to Fidelity.

- *Fidelity Blue Chip Growth Fund*
- *Fidelity Large Cap Stock Fund*
- *Fidelity Fund*

When you want to add large-company stocks to your portfolio, consider three well-known funds from Fidelity – Blue Chip Growth Fund, Large Cap Stock Fund and Fidelity Fund.

All benefit from the money management acumen of Fidelity and extensive fundamental research by our dedicated team of analysts. One more reason to turn to Fidelity to expand your opportunities.



WHERE 12 MILLION INVESTORS PUT THEIR TRUST.

CALL 1-800-FIDELITY

FOR A FUND PROSPECTUS OR VISIT US AT WWW.FIDELITY.COM

For complete information on any fund available through Fidelity, including charges and expenses, call for a free prospectus or download one at fidelity.com. Read it carefully before you invest or send money.

TOLL FREE: 1-800-544-0118 for the deaf and hearing-impaired 9 a.m. – 9 p.m. ET.

© 2001 Fidelity Investments Corporation



R5





SUPERMAN

DOESN'T

FEEL

LIKE

COMMUTING TODAY

Is he Superman? Or does he use R5? With its unique replication technology, new Lotus Notes[®] makes it easy to keep up to the minute, manage your workflow, documents, collaborate with your team and work the Web

from anywhere. Go to lotus.com/superhumansoftware

R5 ► SUPER.HUMAN.SOFTWARE

Lotus.

An IBM Company

THE ATLANTIC CENTURY?

Once again, the U.S. and Europe are the twin drivers of the world economy

The global economy wasn't supposed to look like this. After the Berlin Wall crumbled and governments throughout the world cast their lots with capitalism, it seemed logical to envision a single, seamless system. Money, goods, and eventually people would move from market to market, unimpeded by ideology or protectionist barriers. Western wealth, seeking high returns in developing nations, would flow south and east, enriching recipient industries and consumers until a rising tide of growth lifted everyone into better living standards.

Instead, the new century will begin with an eerily familiar alignment. Once again, North America and Europe are the global anchors of prosperity and stability, while the rest of the world struggles in economic limbo. Far from counting on hot emerging markets to drive global growth, companies and investors are focused on the Atlantic zone. "The big growth engines are the U.S. and Europe," says Michael C. Hawley, president of Boston-based Gillette Co., which is spending \$750 million to launch its pricey Mach III razor in the two regions.

Just three years ago, such optimism would have seemed misplaced. After all, the U.S. had been chugging through a six-year expansion.

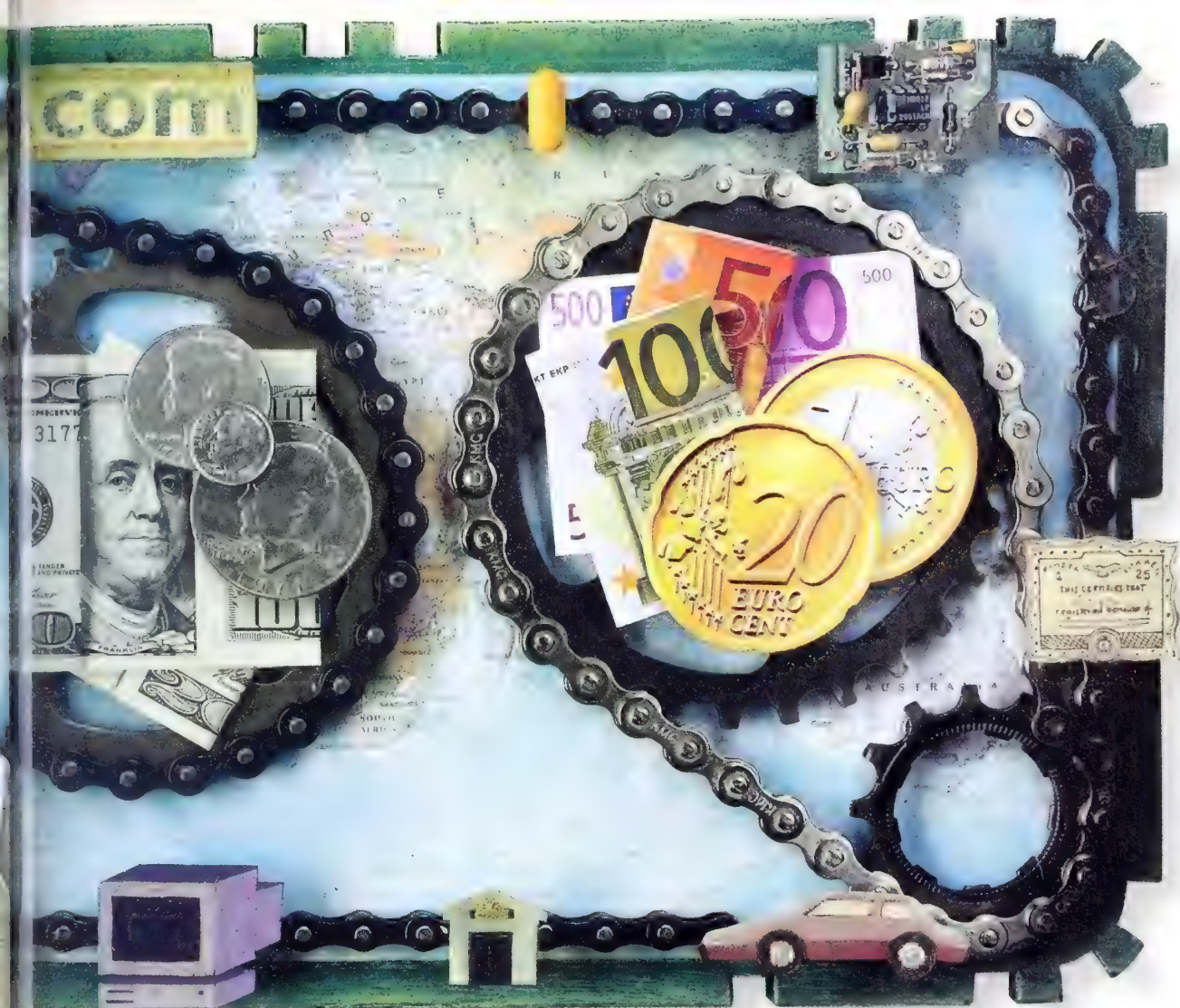
Surely, it had to run out of steam, most economists agreed. Even if growth continued, it could hardly be better than tepid, since the affluent American market seemed saturated with goods

and services. And Europe? Pundits wrote it off as an also-ran in the race for global competitiveness, a continent hopelessly tangled in obsolete regulations and stubbornly refusing to change.

True, 1999 could bring a slowdown. But both regions have surprised us. The U.S., shattering traditional economic assumptions, may have created a new model for growth: excessive technology breakthroughs fuel productivity gains that have been running 2% a year since 1995—nearly twice the rate of the previous two decades. Continued low-inflation, low unemployment growth is defying the classic business cycle. Meanwhile, demographics have changed the face of finance: the baby boom generation saves for retirement by socking millions of dollars into stocks every month automatically—partly one reason for the market's long-term buoyancy. And boomers' insatiable appetite for investment advice has led to an explosion of lucrative financial services from banks, information companies, and the Internet.

Across the sea, Europe is going through many of the same changes. "The New Economy effect is still very much in the future," says University of Maastricht Professor Luc L. Soete. "But in many parts of Europe, it is starting to take form." Proof is in the Continent's two-tier economy: Manufacturers are in recession,

MIRROR The continents' parallel trends



software and telecom companies are pumping out jobs. And, Europe increasingly mirrors its transatlantic trad-
 partner. At \$6.5 trillion, the euro zone's economy ap-
 proximates the U.S.'s \$8 trillion. The two continents' share of
 trade is almost the same, about 18%, and they both ex-
 ceed 11% of GDP. Thanks to the euro, even their stock
 markets could soon be comparable. Barring any profit shocks,
 Europe's 9,100 listed companies should gradually grow in
 close to that of America's 9,900.

Europe's new single currency will bring the continents
 even closer. By consolidating 11 different markets, the
 euro will create a source of capital far bigger
 than the sum of its parts, because it will be
 more liquid. Already, this market is tak-
 ing shape along U.S. lines. That's
 partly because, like Americans, Eu-
 ropeans face an income crunch at
 retirement unless they begin
 shifting their savings into stocks
 and corporate bonds. The euro
 zone's fast-growing capital
 markets represent a fresh
 source of funds for U.S. and
 European companies alike.

And as countries around the world stock up on euros to
 cover trade with the euro zone, the currency could eventually
 share global reserve-currency status with the dollar.

On a less lofty but equally important level, transatlantic
 business values have more in common than ever. Executives
 share a focus on shareholder returns and an openness to
 ideas invented half a world away. Gradually, deregulation
 and more supply-side economics could solve Europe's re-
 maining nagging
 unemployment
 problem. As the
 Continent gains
 in competitive-
 ness and as its capital markets evolve, "you will have two vir-
 tually identical blocs," says Jan Svejnar, economics professor
 and head of the William Davidson Institute, a think tank in
 Ann Arbor, Mich. "Technologically, neither will be ahead,
 and institutionally they will be similar."

The upshot is that for now, U.S. and European companies
 no longer need look to the developing world for growth.
 For example, thanks to deregulation on both continents, a
 phone company formerly dependent on a single business
 repertoire can now branch out into cable and Internet ser-
 vices. And its once-regional customer base is the size of

Cover Story

are creating "two virtually identical blocs"

the entire transatlantic zone. "When we talk about globalization, we used to talk about emerging markets," says McKinsey & Co. global strategy expert Lowell L. Bryan. "But the most important integration now is occur-

Cover Story

THE ATLANTIC CENTURY?

ring between Europe and America."

Already, gigantic mergers, from DaimlerChrysler to Deutsche Bank-Bankers Trust, signal that the biggest companies on both sides of the Atlantic want to exploit the two continents' growing similarities. Since size and market reach are more important than ever—especially in a Europe whose national boundaries are gradually being razed—many more transatlantic deals are likely to follow. Mergers and acquisitions between the two continents totaled \$256.5 billion in 1998, up from \$69.4 billion in 1995.

LONG-TERM FOCUS. U.S. and European management styles are gradually converging, too. Multilingual executives believe in performance-based compensation and look for talent without regard to nationality. And the euro zone's monetary guardian, the new European Central Bank, seems committed to emulating the U.S. Federal Reserve, making steady, low-inflation growth its principal target. For the foreseeable future, investors on both sides of the Atlantic are likely to shun short-term high returns in emerging countries in favor of lower but less volatile rewards from each other's capital markets.

While North America and Europe increasingly look like twin pillars of global growth, the

former stars of the world economy are in a tailspin. In Asia, the forces of economic integration are crumbling. The recession and financial debacle in Japan has deprived the region of its main growth en-

gine. Self-obsessed China is turning more protectionist. Initiatives of the early 1990s to dismantle regional barriers to trade, financial services, and telecommunications have fallen into disarray. In many industries, companies still must approach the region country by country, each with its own rules, currency regimes, and bureaucracies. That makes it tough to achieve critical mass.

Thanks to the Asian meltdown of 1997, Russia's devaluation and default last year, and a potential Latin American crisis in 1999, confidence in emerging markets has dissolved. And in the midterm, these countries will pay dearly for even a sliver of Western capital as they try to repair their shattered economies. Private credit to emerging markets dwindled to \$39 billion last year, from \$196 billion in 1996.

The new divide between the economic haves and have-nots could be self-perpetuating. For example, the U.S. has



DEREGULATION

Opening of telecom, banking, and airlines is creating a continental market in Europe that parallels the U.S. Costs are falling as competition increases.

TECHNOLOGY

Companies in both Europe and the U.S. are rapidly absorbing technology, increasing productivity, and becoming more responsive to change. Technology is helping to turn once-mature economies into zones of growth.

FINANCIAL MARKETS

The euro has revolutionized European finance. It is reshaping capital markets along U.S. lines and will create a huge new pool of funding for both European and U.S. companies. The euro will likely take a bigger place alongside the dollar as a reserve currency.

COMMON BUSINESS

A generation of U.S. school trained, U.S. managers is taking over Europe's companies. On both sides of the Atlantic, companies are emphasizing shareholder value, focusing on profits and paying out performance.

WHAT'S DRIVING THE NEW ATLANTIC

ROOM TO MOVE Companies no longer need the developing world for growth. Deregulation is opening new opportunities in Europe and the U.S.

MERCEDES SEDANS AT HAMBURG HARBOR: THE DAIMLER-CHRYSLER DEAL MAY BE A HARBINGER

fited from the flood of cheap imports, which has allowed the Federal Reserve to keep interest rates low. But developing nations get much less for the commodities they produce, be they oil, steel, or computer memory chips. And because their currencies have plunged in value, countries such as Indonesia, Thailand, and Brazil have much less buying power for machinery, raw materials, and fuel. Without such supplies, they can't get exports growing again.

Yet despite the reversal of the developing nations' fortunes, many opinion leaders reject the idea that the U.S. and Europe should be regarded as role models. "The emerging markets accepted unilateral imposition of dogmatic formulas because they feared a negative reaction from the market," says Eisuke Sakakibara,



s powerful vice-minister of finance for international affairs. But now, he says, the era of Western "market fundamentalism" is fading as a global ideology: "Global capitalism proved inherently unstable."

Deprived of the hot Western money that fed their growth in the early 1990s, many developing markets are back to square one. But the tough times have brought valuable lessons. Perhaps the most fundamental is that capitalism isn't fully formed. Throwing capital at an economy not yet equipped to handle cyclical downturns, inflation, and currency swings is unlikely to yield long-term gains.

For government leaders, executives, and investors are calling for institutional and regulatory reforms in emerging markets. It could be years before these structural changes take root. But if nothing else, the cut-off of easy money from the West could ensure that Asia, Russia, and Latin

America don't make the same mistakes again. Nor are they likely simply to turn back into cheap-export machines. More probable is a gradual transition—no doubt with plenty of government intervention along the way—to a practice of capitalism that meshes with the trans-atlantic model but holds less built-in financial risk.

In fact, the new world order could introduce a set of global risks quite different from the emerging nations' boom-busts. Harmonious as the U.S. and European economies may be, a downturn in world growth could send the two continents into serious rivalry. Even now, Brussels and Washington are battling over banana and meat imports, with the U.S. threatening sanctions. Competitive devaluations between the dollar and the euro are not out of the question, and trade barriers and currency wars could be even more tempting. Says the Davidson Institute's Svejnar: "Since NAFTA and the euro zone are large blocs, it's easier for them to be self-sufficient."

UNITY GAP. Finally, it remains to be seen whether the U.S. can gracefully cede the geopolitical hegemony it has enjoyed for most of this century. America has traditionally shouldered much of the burden when a global crisis erupts, from wars to financial default. As the euro zone matures into a single, massive economy, its leaders could be called on more frequently to pull their weight in times of trouble. "But as long as Europe lacks political unity," says André Levy-Lang, chairman of French investment bank Paribas, "it's unlikely to assume a caretaker role, because countries still have conflicting interests."

The greatest danger to the transatlantic alliance, in fact, is an economic shock that somehow hits one bloc harder than the other. But as long as the two remain oases of growth in a turbulent world, they are likely to be more allies than rivals. Europeans and Americans may never define capitalism in exactly the same way. But for now, their definitions are close enough to ensure a fertile economic partnership for years to come.

By Joan Warner, with Pete Engardio in New York and Thane Peterson in Frankfurt

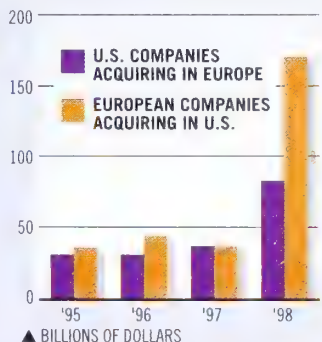
OMY

ER WAVE

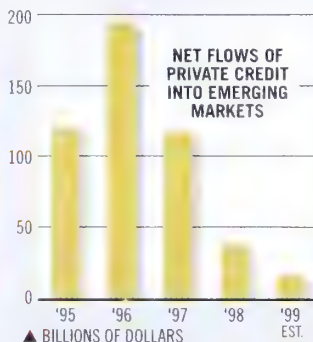
ed of mega-
is emerging
antic giants
ese enormous
can transfer
management
money
between the
biggest and
kets.

BUSINESS WEEK

CAPITAL IS FLOODING INTO WESTERN DEALS...



...AS IT DRIES UP IN EMERGING MARKETS



SOURCE: KPMG PEAT MARWICK



EUROPE RISING

Restructuring and the euro may soon make it America's equal

It was the kind of corporate coup that leaves coffee mugs rattling in executive suites. Bell Atlantic Corp., the phone Goliath of the eastern U.S., was just about to buy San Francisco's AirTouch Communications Inc. But at the last minute in early January, London-based Vodafone Group PLC outbid Bell's original offer by \$17 billion, paying \$62 billion for AirTouch. The world's largest cellular-phone operator would be British, not American. Far from concluding that the European company was overreaching, investors quickly bid up Vodafone shares by 17%.

The deal sounded a wake-up call. Long considered a collection of economic has-beens clinging to outdated social systems, Europe is on the rise. The single currency, officially born on Jan. 4, is only the latest milestone in the Continent's long journey back to global prominence. Gradually, over the past 10 years, companies have restructured and governments have dismantled regulations that stifled competition, following a model perfected in the U.S.

TEAMWORK. Indeed, until recently, it seemed safe to assume that Japan, or perhaps China, would become America's closest economic peer. But with Asia, Latin America, and Russia all in deep financial trouble, Europe seems most likely to fill that role, at least in the medium term. Right now, it's one of the main props under the fragile world economy. Although

the global crisis is slowing growth, the euro zone's gross domestic product is still projected to expand

by 2% this year—about the same as the U.S. rate—and to recover to around 3% growth in 2000.

Monetary union is only part of the story. European companies have painfully cut costs and sold off money-losing businesses to get into fighting trim. Now, the strongest are teaming up with U.S. counterparts to gain even greater market strength. Several recent mergers give a glimpse of the new transatlantic corporation. At DaimlerChrysler, the biggest combination so far, a jet shuttles executives between Stuttgart and Detroit three times a week, and the two com-

panies plan to integrate procurement and share technology. Deutsche Bank bought Bankers Trust to complement its homegrown clout with U.S.-style investment banking services.

Media giant Bertelsmann has widened its global presence by publishing by acquiring Random House. And to cash in on the Continent's growing Internet craze, Bertelsmann took a stake in America Online and manages AOL's booming European operations in a joint venture with the U.S. company. Last fall, Bertelsmann poured \$200 million into a partnership with Barnes & Noble to take on Amazon.com in the U.S. Such deals, along with British Petroleum's \$53 billion buyout of Amoco and Vodafone's triumph over Bell Atlantic, suggest that America is Europe Inc.'s favorite shopping mall.

Even when they're not snapping up U.S. counterparts, European companies are proving to be global powerhouses. Formerly state-subsidized Airbus Industrie matches Boeing order for order in small and midsize jets. Saab, Mercedes and Volkswagens are booming around the world. Finland's Nokia and Sweden's Ericsson, along with Philips, have conquered global telecommunications markets.

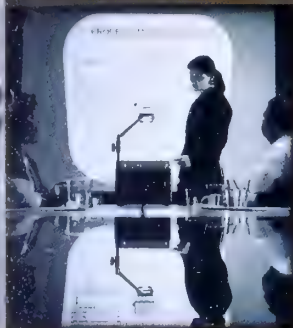
Another force behind the Continent's growing muscle is deregulation, which has turned "Fortress Europe" into



Cover Story

THE ATLANTIC CENTURY?

Canon Takes Presentation Technology From The Dark Ages To The Digital Age.



Introducing "Digital OHP."

Digital OHP Presentations: A Canon Exclusive.

The "Digital Overhead Projector," available only from Canon, combines the first affordable hi-res. (1900 x 1424 pixels) Digital Document Camera, with Canon's first optically-advanced LV-series projector to give you text clarity of 8pt. on a full 8 1/2" x 11" document) without transparencies, plus a whole lot more.

Patented Technology Means Breakthrough Pricing.

Canon's patented Parallel Plate 'Variable Refraction Optical System' is a unique technology that allows one CCD to give you the quality of nine, without the high cost.

Enhance Your PowerPoint® Presentations.

Within seconds, The Digital OHP allows you to access crisp type and incredible detail from documents, charts, graphs, even 3-D objects and integrate them into your PowerPoint presentation for maximum flexibility.

The Missing Link To Videoconferencing.

Unlike conventional document cameras, the Digital OHP optimizes your videoconferencing system, allowing you to share full document text and detailed images much like you would during a face-to-face meeting.

FOR MORE INFORMATION, PLEASE CALL (516) 328-5960.

E-mail us at vcasd@cusa.canon.com Website: www.usa.canon.com

DIGITAL OHP
Overhead Projector

PowerPoint® is a registered trademark of Microsoft.

Canon

VISUAL COMMUNICATION SYSTEMS DIVISION

Canon is a registered trademark of Canon, Inc. ©1999 Canon USA, Inc.

NEW WORLD Former monopolies trying to hold on to market share are likely to drive more Europe-U.S. mergers

freer, more efficient market. For instance, since the German and French telecommunications markets were fully deregulated a year ago, they have become among the most competitive in the world. Companies such as France Télécom, Deutsche Telekom, and Mannesmann are being forced to cut costs and expand across Europe to survive. The side effects are already palpable. German telecom companies alone created 40,000 jobs in 1998. And competition has reduced Germany's phone rates by as much as 70%.

Deregulation will set off the same process in banking and finance, media, and energy. Once the leaders in these industries gain enough critical mass in Europe, many

will strike out abroad, as Vodafone did. No matter which side of the Atlantic they're on, says John J. Studzinski, Morgan Stanley Dean Witter & Co.'s European investment banking chief, "the biggest companies in each industry will drive consolidation."

Indeed, former monopolies trying to hold on to market share as they begin to face private-sector competition are likely to drive more Europe-U.S. mergers. For instance, giant state-owned Deutsche Post in Bonn is getting ready for mail deregulation by teaming up with air carrier Lufthansa to

buy a big stake in parcel-delivery company DHL International Ltd. That way, it will have another business to fall back on if margins in letter mail.

Yet some European industries are on the ascendant, and to what Americans might consider state intervention, certainly the case with the Continent's global lead in cell phones. The early adoption of a single European standard has created a huge platform for its cell-phone companies. By contrast, says Vodafone CEO Christopher C. Gerlach, the U.S. created "a mess of standards" by letting multiple systems battle it out. Adds Jorma Ollila, Nokia CEO, "Economic theory would say that [the U.S. approach] is better, but it hasn't worked out that way." In fact, Europe is likely to set the world standard for next-generation video phones.

AMBIVALENCE. For all the progress Europe has made toward global competitiveness, its citizens remain committed to policies that mitigate the harsher aspects of the U.S. economy. Voters want to retain state-run health care, retirement benefits, and liberal unemployment and welfare benefits, even if that means setting aside some of their new wealth for them. The left-of-center governments that run 13 of the European Union's 15 nations are beholden to labor, and new policies could reverse the moderate wage demands that have helped keep unit labor costs in the euro zone flat

past two years.

Indeed, Europe's recovery is a two-tiered affair, in which companies often succeed despite government labor and social policies. Decades-old rules to protect workers could hamper further gains. "There is a vast distance between the attitudes of [European] companies and governments," says David Vasella, CEO of Swiss drug giant Novartis.

Still, thousands of companies are tailoring strategies to capitalize on the Continent's strength. Out of the few winners will come ever more Danes and Vodafone's poising themselves to globalize once they are strong enough in Europe. They present a challenge to the U.S.—and an opportunity. "Americans are and will continue to be ambivalent about what's happening here, so a top EC official in Brussels. "They know they need a stronger Europe. But they don't want another big guy on the block that makes them nervous." don't believe him, just ask the executives at Bell Atlantic.

By Thane Petersen in Frankfurt, with William Echikson in Brussels, Stephen Baker in Paris, Julia W. in London, and bureau

Cover Story

THE ATLANTIC CENTURY?

HOT SPOTS IN THE EURO ZONE

The industries behind the Continent's climb



*LIKELY TO ENTER MONETARY UNION IN THE NEXT ROUND

DATA: BUSINESS WEEK



CNA covered the company that covered the Denver Mint.

When it came time to replace the roof over the Denver Mint, CNA was there to cover it. CNA worked with B&M Roofing by providing them with general liability insurance, workers' compensation, commercial auto coverage and a surety bond. By bringing you more than a century of experience and the financial stability of over \$60 billion in assets, CNA can offer you a broad array of insurance products and services for your business, home, auto and life. Visit us at www.cna.com

CNA

For All the Commitments You Make[®]

CNA is a registered service mark and trade name of CNA Financial Corporation
Any depiction of the Mint does not imply endorsement of CNA by the Mint.



I'm a simple n

{I like art, unusual jewelry

-reading your confidential l

SCARY THING IS THIS GUY IS NOT ALONE. LOTS OF PEOPLE WOULD LOVE NOTHING

80% OF THE FORTUNE 100 HAVE CHOSEN NETWORK ASSOCIATES FOR THEIR NEW

1-800-332-9966, DEPT. 1938, OR VISIT WWW.NAI.COM. BUT CONTACT US SOON, BECA

N
e
t
w
o
r
k
s

McAfee Total Virus Defense

PGP Total Network Security

Sniffer Total Network Visibility

McAfee Total Service Desk

TO MESS WITH YOUR NETWORK. FORTUNATELY, YOU ARE NOT ALONE EITHER. OVER
RITY AND MANAGEMENT. TO FIND OUT MORE, CALL
ONGUE ISN'T THE ONLY THING HE WANTS TO PIERCE.



Who's watching your network

FIGHTING TO SURVIVE

Emerging nations face a long siege

There's nothing fair about what's happening to Burapa Steel Industries Co. The Thai company's top executives weren't cronies of bankers or government officials. Their business had plenty of foreign customers for its high-end steel. They didn't borrow recklessly. Yet Burapa is on the verge of bankruptcy, punished by local and Western trade financiers too scared to lend in a shaky emerging market. Concedes Burapa Managing Director Sahtisuk Plook-sawadi: "We're fighting to survive."

It's the same story throughout Asia and much of the rest of the developing world. The winds that blew hundreds of billions of dollars into emerging markets with hurricane force in the early 1990s have gone deathly still. Now, these economies must struggle their way out of recession with much less Western investment. Data from Washington think tank Institute of International Finance tell the story: Commercial-bank lending to developing nations plunged from \$121 billion in 1997 to an outflow of \$10 billion last year, with 1999 looking like another bad year. Bond and equity portfolio flows also plummeted. That capital won't gush back until developing countries show marked progress in structural reform.

Unless confidence can be restored quickly, emerging markets may be a drag on world growth for years, rather than the driver they were in the first half of the decade. Borrowers will have to pay sky-high interest rates for whatever funds they can find.

The big danger is that direct investment by corporations will taper off as well. As prospects for making money fade years into the future, countries such as Russia, Indonesia, and Brazil could drop off the radar screens of many Western corporations that can't afford to wait for the kinds of returns they are getting in Europe and America. What new foreign direct investment does come will be concentrated toward a few strategic bets, such as China, Korea, Mexico, or Poland.

Behind the caution is a sobering realization among Western lenders: International Monetary Fund rescue plans and government guarantees no longer mean they will get their money back. Russia has exploded the cozy myth that sovereign nations do not default on bonds. Now, banks are facing the same reality check in China, with Beijing saying it won't cover billions in dud loans to state-owned investment trusts.

The big lesson of 1998 is that even Western-led institutions that were designed to maintain order are out of their depth in

copied with the trillions in private capital that now warpage through the global economy. The conundrum is what to do about it. The world's policy gnomes are urgently seeking ways to repair the international financial architecture. Iba is raging in the ivory towers of think tanks, lending agencies and confabs such as the World Economic Forum in Davos, Switzerland. Prescriptions range from schemes to limit the excesses of global hot money to blueprints for entire new international regulatory bodies (table).

No grand solution has yet emerged that is likely to satisfy the scrutiny of the world's government and financial institutions. But surprising consensus is forming on some points economists regarded as anathema only a year ago. Both the IMF and U.S. Treasury, for example, have lined up behind the idea that the IMF should formally become a lender of last resort to keep nations afloat when all else fails. With that would come power to certify whether a nation is sound and transparent enough to borrow. And rather than wait until a financial storm hits, the IMF would rely on more preemptive strikes, such as the \$41.5 billion the IMF is deploying in its bid to save Brazil. Some of these changes could become policy this spring, when leaders of industrialized nations meet in Cologne, Germany.

NEW CONSENSUS. The IMF, Treasury, and World Bank also now embrace financial controls by developing nations that they used to vigorously condemn. They agree that floating currencies and free inflows of hot money may be bad for countries with primitive financial systems. They also agree that countries should cooperate in regulating hedge funds.

Will these measures do much to ease market anxieties? Indeed, one reason investors are spooked is that the rules governing emerging markets seem open to revision. Says Deutsche Bank economist Peter M. Garber: "If you think policy shifts are in the air and markets will become less liquid, that means more risk."

There are encouraging signs of surging foreign investment in some Asian countries as distressed companies dump assets. It's shaping up as a banner year for mergers and acquisitions in South Korea, for example. "But take away Korea, and the Pacific Rim has dropped off the map,"



BLUEPRINTS FOR SAFETY

Ideas for reforming the "international financial architecture" are all over the map

LENDER OF LAST RESORT

Have the IMF formally assume responsibility for bailing countries out of emergencies and supplying needed liquidity before crises occur. To qualify, nations must meet financial and regulatory rules.

GLOBAL OVERSIGHT

The IMF or a new agency would police disclosure practices by governments, central banks, and private financial institutions. The information would be published and used by creditors to assess risk.

CURBING HEDGE FUNDS

Central banks would supervise big private funds that move large volumes of money across borders and share information to head off speculative attacks.

KPMG Corporate Finance Director Stephen Blum. It will come back slowly are bank loans and investment in stocks and bonds, the rocket fuel of East Asia's early boom. And much of the region's high savings will be tied in whittling down its \$600 billion overhang of bad debt. New portfolio investment will remain vulnerable and dependent on booming liquid financial markets in the U.S. and Europe. "The volatility of capital flows is still there," warns Peter Fischer, deputy managing director of the International Monetary Fund. "There still is the potential for serious crisis." Indeed, the liquidity squeeze has spread far beyond South Asia. If they can borrow or float bonds at all, borrowers in emerging markets must pay double or triple rates fetched in the U.S. and Europe for loans and bond issues.

Even manufacturers in well-managed Argentina say they can't get financing to fill export orders.

"Across the board, there

is no confidence whatsoever" in emerging markets, says Peter L. Woicke, the new head of International Finance Corp., the World Bank's private lending arm.

This reassessment of developing nations' growth potential will factor into the strategic plans of multinationals. Giants such as General Electric, DaimlerChrysler, and Unilever Group will press ahead. Some will make new investments.

But most companies face harder choices, particularly those that recently joined the global bandwagon. For most, developing markets are consuming scarce capital that

could earn much higher returns in Europe and the U.S. In packaged foods and pharmaceuticals, so much spending power has been wiped out in Asia that "it will take until 2003 or 2005 to get to where companies thought they would be in 1998," says A. T. Kearney Inc. consultant George Baeder.

To restore investor confidence, developing nations must erase the stigma that they are inherently unstable. Countries such as Thailand and Indonesia have begun to restructure banks and beef up supervision. But reforming financial sectors alone isn't enough, contends World Bank President James D. Wolfensohn. The collapses and failed rescues in Asia and Russia underscore the reality that factors such as judicial systems, social safety nets, and clean government "are equally important as money" in determining whether a country's economy is sound, he says.

U.S. MODEL. These reforms will take years, of course. And many pundits insist that even more ambitious changes are needed to make markets less anarchic. For the global economy to operate efficiently, they argue, it needs international equivalents of the Federal Reserve, the Securities & Exchange Commission, and bankruptcy courts. Trouble is, few countries are ready to cede such sovereignty.

As a result, many emerging markets are in for a long, rocky future. And Washington is likely to keep pressing the issue because it now knows that emerging-market crises take a toll on the West. The near-collapse of Long-Term Capital Management because of bond losses in Russia proved that "globalization means it is possible for a virus to be injected right into the heart of the U.S. economy," says Institute of International Finance Managing Director Charles H. Dallara.

Globalization promised many things to many countries in recent years. But "decades of trauma" must have been buried in the fine print. Now the search begins for ways to tame capital flows so they spur growth in good times but avert calamity when trouble erupts.

By Pete Engardio, with Owen Ullmann in Washington, and bureau reports

Cover Story

THE ATLANTIC CENTURY?



ENDING THE PAIN

bodies or procedures arbitrate work-creditors share the resolving a crisis. le a global bank- m or writing work- to bond contracts.

CAPITAL CONTROLS

World Bank and other bodies suggest that developing nations restrict excessive inflows of hot money. Chile's approach of "taxing" short-term loans and portfolio investments is cited as a model.

FIGHTING LIQUIDITY FREEZES

The IMF plans more early bailouts such as the one for Brazil to avert crises. The International Finance Corp. wants to offer more emergency trade credits in case banks cut off viable exporters.

BETTER COMMUNICATIONS

Officials in developing countries should more openly discuss their policies and problems through conference calls with lenders and investors, a strategy now used by Mexico.

DATA: IMF, WORLD BANK, IIF, BW

ELECTRIC VEHICLES

ENVIRO-CARS: THE RACE IS ON

Toyota's green machine will soon have lots of rivals

For more than a year, Toyota Motor Corp. has been cranking out the world's first mass-produced hybrid car. Under its hood are two power plants—a gasoline engine and an electric motor. In congested urban areas the motor is the full-time workhorse, while

the engine keeps the batteries charged and kicks in extra oomph when passing.

Toyota's Prius goes a long way toward achieving the low-pollution benefits of electric vehicles. Yet it doesn't saddle drivers with a car that can only wander 100 miles or so before it must stop to

recharge its batteries. In fact, because of the dual-energy approach, the Prius wrings 870 miles out of a tank. "It represents a new value for the 21st century," boasted Toyota President Takashi Okuda when the car was launched.

Now, Toyota's backyard rivals are revving up their own hybrids. Nissan, and Fuji are gearing up to challenge Toyota's lead in "green" car contests that kick off in the fall, when General Motors Co. aims to steal the spotlight with the first gasoline-electric hybrid car in the U.S., along with European carmakers. Japan. Toyota's Prius won't leave the U.S. until 2000, after an overhaul to make it more zip for foreign roads and to comply with various national regulations.

Honda's green contender will be a two-seat subcompact with an alternative body. Code-named VV, it reverses Toyota's Prius recipe: The electric motor plays second fiddle to the gas engine, which runs constantly. Still, thanks largely to the VV's light weight—roughly 1,000 pounds less than the Prius—Honda promises the VV will one-up Toyota on fuel economy, cleanliness, and price. "We wanted to create a car so fuel-efficient it would shock everyone," says Dr. Shiro Kuroda, the VV's head engineer.

The VV's engine will comply with California's toughest Ultra-Low Emission Vehicle (ULEV) standard, the stage beyond which the Low Emission Vehicle standard that the Prius meets.

Back in Japan, a third competitor will enter the ring this fall: the Toyota Motor Co. Its hybrid probably will be an offshoot of the new Toyota Camry wagon. Come 2001, Fuji Heavy Industries hopes to mesmerize consumers with a hybrid Subaru minivan.

DISTANT PROFITS. The race is under way because Japanese drivers are snapping up 1,765 Prius compacts a month. That's shy of Toyota's production capacity of 2,000 a month, but way over the company's target of 1,000. But it's still too early to be profitable. Analysts estimate that building a Prius costs many times more than its \$19,000 price. Honda expects to lose money, too. "It depends on the volume," says Honda President Hiroyuki Yoshino. "We don't know how many we will sell."

To trim their hybrid losses, automakers hope to crank up volume by going global. It will be a tough battle. Consumers haven't been eager to breathe cleaner air—especially in the U.S., where gasoline costs less than in Europe. That's why General Motors is betting on hybrid buses and trucks. Fleet owners are willing to pay more in the front if the outlay can be reduced

TWO TAKES ON HYBRID CARS

ON THE TRACK . . .

Toyota's Prius is selling well in Japan at roughly \$19,000.

SPECIFICATIONS

Emissions rating Low Emission Vehicle

Fuel efficiency 66 miles per gallon

Gasoline engine 1.5 liters, four cylinders, 58 hp

Electric motor 30 kilowatts, 40 hp

Range 870 miles per tank of gas



. . . AT THE STARTING LINE

Honda's VV will soon hit showrooms at an even lower price.



SPECIFICATIONS

Emissions rating Ultra-Low Emission vehicle

Fuel efficiency 70 miles per gallon

Gasoline engine 1.0 liter, three cylinders

Electric motor Not disclosed yet

Range 700 miles per tank of gas



FOR SOME, WHERE LAND MEETS SKY IS THE END. FOR US, IT'S THE BEGINNING.

At Great Plains, we took our name from the land and our philosophy from the view. Because there, on the horizon, we see opportunity.

That spirit of progress and possibility is part of our world. And how we work with growing companies worldwide. Our integrated and affordable solution combines financial, distribution, manufacturing, HR/payroll, service management and e-business — all designed for Microsoft BackOffice. So as you move forward, it does, too.

Our vision helped us develop the leading Windows NT/SQL Server accounting application in the U.S.* A support team with a 99.97% success rate for meeting guaranteed response times. And an organization *Business Week* called one of the nation's "Top 100 Hot Growth Companies."

To learn more, call us at **1-800-456-0025** or visit **www.greatplains.com**. And discover how we can help you see your horizons. As well as the opportunities beyond them.



GREAT PLAINS®

SEE FARTHER

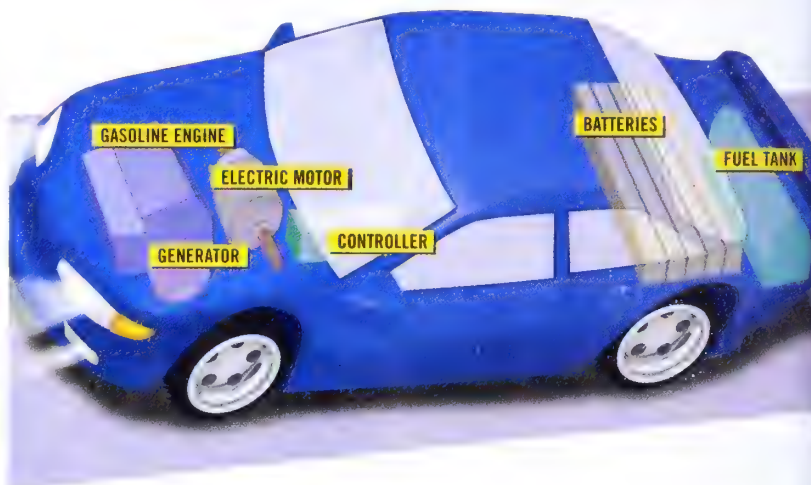
from lower operating costs. GM plans to test a diesel-electric hybrid bus on New York City streets later this year. A hybrid car should be ready for production by 2001, GM says, but there's no timetable for actually building it. Ford Motor Co. and DaimlerChrysler don't expect to roll out hybrid cars before 2003, if then. Skepticism abounds in Europe as well. Although Volkswagen's Audi division has been road-testing hybrid cars since 1989, it hasn't found one that measures up to the Audi image.

BYE, BYE GAS? Japan's carmakers remain undeterred. They see hybrid technology as a bridge between the squeaky-clean, but unpopular, all-electric vehicles of today and tomorrow's ultimate green car—which probably will be powered by a fuel cell that chemically converts gasoline or hydrogen into electricity without combustion. With increasingly stringent pollution curbs spreading from country to country, gasoline engines seem doomed—but not for a decade or two. In the interim, better fuel efficiency could pay off in big market-share gains, just as it did after oil prices skyrocketed in 1973.

So Japan's carmakers are barreling ahead. Soon, the hefty subsidies for every hybrid may begin easing. Analysts expect Honda to buy its v.v. batteries from Panasonic EV Energy Co., the Toyota-Matsushita group joint venture that supplies nickel metal-hydride batteries for the Prius. If so, rising volumes could drive down battery costs—and batteries account for 20% of total hybrid costs. At 10,000 batteries a

WHAT'S INSIDE

Hybrid cars have dual energy sources—both gasoline and electricity.



month, Panasonic EV Energy says it could slash its prices in half—reducing total hybrid production costs by 10%.

Nissan plans to use lighter lithium-ion batteries to offset the weight of its hybrid, which will be larger than the Prius. Nissan also is fine-tuning a new transmission to provide better handling, says Hiromasa Maeda, a senior engineering manager. The investments in new technologies mean “no one can make money for the time being,” says analyst Koji Endo of Schroders Japan Ltd., a Tokyo securities firm. But he predicts some players will start earning returns “in three to five years.”

This fall, look for Toyota to react

strongly to Honda's challenge. A Wada, Toyota's executive vice-president for development, doesn't like being staged by Honda, so Toyota is working on a few performance-boosting secrets to trump the v.v. For its U.S. market, Wada wants the Prius to leap over California's ULEV standard and qualify as a super-ultra-low emission vehicle—which may make it slightly costlier in the U.S.

Pioneering green cars isn't easy. But the intense rivalry triggered by the Prius might end up helping make the rush hour commute a little easier time to breathe.

*By Emily Thornton in Tokyo
bureau reports*

HITTING THE ROAD IN TOYOTA'S PRIUS

There's just one hybrid car in production, Toyota Motor Corp.'s Prius, and it's sold only in Japan. But Toyota brought a handful to the U.S. recently, so I borrowed one for five days to see if this new breed of “green” car is easier to live with than all-electric vehicles.

I am pleasantly impressed. This is a no-compromise vehicle that behaves like a conventional small car. Thanks to its fuel tank, there's no need to remember to hook it up to the charger every night. No jitters over whether the battery has enough juice to get you home.

Still, the Prius is an electric car at heart. Get in, turn the key, and the “ready” light comes on. If the batter-

ies are fully charged, the gasoline engine won't kick in until you approach 10 mph. At red lights, it shuts down.

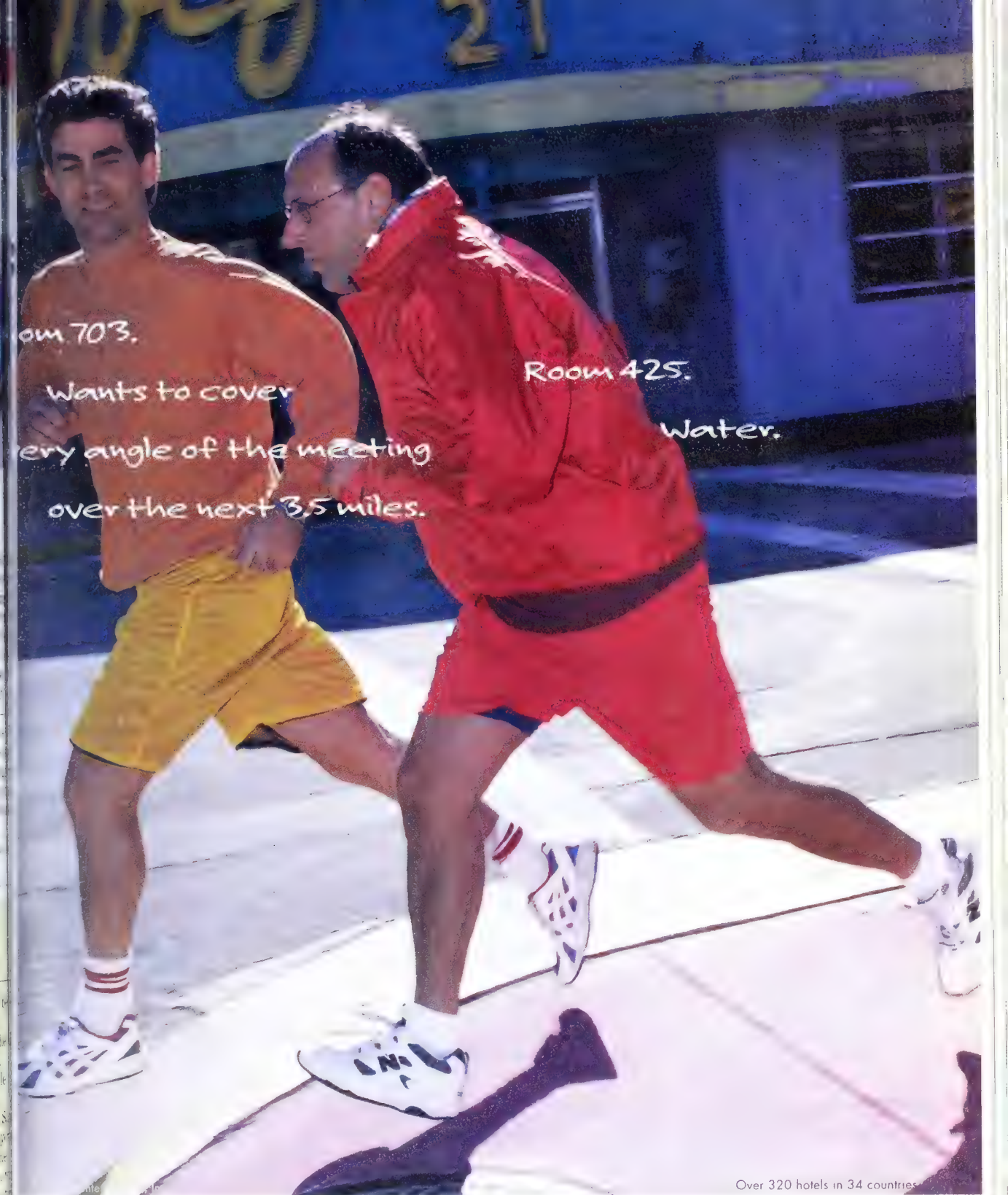
Out on the road, though, it feels like an ordinary gasoline car. What reminds you otherwise is a 5-inch liquid-crystal display in the console. It shows whether the car is being propelled by the engine, the motor, or both. When you brake, the LCD lets you know that the excess energy is being converted into electricity. It's all a bit distracting, but I was soon just letting the Prius do its thing.

The Prius is three inches shorter than a Corolla, yet bigger inside—with generous headroom and legroom. Don't look for the speedometer through the steering wheel. Instead,

it sits in a little pod on the dash, below the rear-view mirror. Looks weird, but I quickly discovered the location makes for quicker reading.

To see if the Prius could handle American freeways as well as Tokyo's traffic jams, I took it to San Diego—a 130-mile trek that's beyond the range of every electric vehicle now on the market. Acceleration is good enough, passing power was fine, and while the engine strained a bit, it kept up with traffic in the fast lane. And when I topped off the tank back home, I calculated the Prius at 47 miles per gallon, maybe half again as much as most 1.5-liter buggies.

*By Larry Armstrong
in Los Angeles*



om 703.

Wants to cover
every angle of the meeting
over the next 3.5 miles.

Room 425.

Water.

Over 320 hotels in 34 countries.

e know you need to stay in top form whether you're in a suit or sweats. That's why at Marriott we've got
HEALTHY START BREAKFASTS, fully equipped HEALTH CLUBS, POOLS for laps and king-sized beds to collapse on.
all your travel agent or 800-228-9290, or visit www.marriott.com. We believe:

When you're comfortable you can do anything.®

 **Marriott**
HOTELS · RESORTS · SUITES

MEDICINE

REBUILDING THE BRAIN

Cell transplants could lead to revolutionary cures

The white mice scrambling over one another in plastic cages in Dr. Evan Y. Snyder's laboratory at Children's Hospital in Boston look like standard-issue research animals. But they represent a new frontier in the manipulation of life. In a series of recent experiments, Snyder injected living human neurons into the mice's soft, tiny skulls. The neurons survived and spread, sending out connections until they were fully wired into the mice's brains. The mice now negotiate their world with brains that are part human.

Snyder's mice offer the promise of a new treatment for Alzheimer's, Parkinson's disease, strokes, and spinal cord injuries, all of which lead to the destruction of brain cells. "We are looking for ways to repair those neurons, replace those neurons, and restructure the brain," said Paul R. Sanberg, a neuroscientist at the University of South Florida. He and Snyder were among a group of scientists who described the latest developments—including new research on humans—at a seminar on Jan. 25 at the annual meeting of the American Association for the Advancement of Science in Anaheim, Calif.

The notion that neural-cell transplants might treat brain damage was first explored nearly two decades ago. Then, fetal neurons were injected into several Parkinson's patients, but the improvements in symptoms were modest and fleeting, and researchers went back to the lab to figure out why. "The reason they stopped is because they weren't confident they knew what they were doing," said Ronald McKay, a molecular biologist at the National Institutes of Health in Bethesda, Md., who has been working on neural transplantation since the early 1980s. Now, however, "the whole thing is booming," said McKay. "The pharmaceutical industry is all over our work—they really want to do this." According to Sanberg, a dozen or more research teams at universities and biotechnology companies have jumped into the field in the past few years.

NEW WAVE. The early experiments with fetal neurons are being replaced by what might be called a second wave of brain-cell transplants. In November, Snyder reported that he had isolated human neural stem cells—the immature precursors that grow into all the neurons and related cells found in the brain

Cellular Strategies

Biologists are exploring several approaches to treating brain damage by reviving or replacing neurons destroyed by injury or diseases. Here are some of them.

SOURCE OF CELLS

CELLS FROM ABORTED HUMAN FETUSES

ANIMAL CELLS

NEURAL STEM CELLS

CELLS MADE FROM CANCER TUMORS

STATUS OF RESEARCH

Human trials under way for Parkinson's disease, Huntington's disease, and spinal cord injury. No results yet.

Cells from rat testicles have been shown to ease Parkinson's disease symptoms when transplanted into the rats' brains. Human experiments not yet planned.

These are precursor cells that grow into neurons. Studies done in rats and mice show they can be used to replace damaged brain cells.

Transplants being done in humans to treat strokes. No results yet. Laboratory studies underway for spinal cord injury, Huntington's disease, and Parkinson's disease.

and nervous system. "They are the seeds of the brain," Snyder says (McKay and others have worked with similar cells, and there is disagreement over who was first to isolate stem cells).

Most of the neural transplant work far has been done in rats, mice, and monkeys, but human tests are beginning. In one of the most ambitious studies so far, Dr. Douglas Kondziolka, a neurosurgeon at the University of Pittsburgh, has treated nine stroke victims by injecting human neurons directly into the parts of their brains that were damaged. The hope is that the new neurons could help restore memory and coordination and other debilitating consequences of strokes. The first report of the transplants will be presented Feb. 4 at the American Heart Association's annual stroke meeting in Nashville. Kondziolka is using neurons from





**OF MICE AND MEN: SNYDER
INJECTED RODENTS WITH
HUMAN BRAIN TISSUE**

testicular cancer tumor called a urcinoma. The tumor arises from n cells that generate sperm, and erm cells, it can change as it o form many kinds of tissue—in-nerve cells. The neurons, grown ton Bioscience Inc. of Atherton, were originally produced for use testing and other experiments. **CELLS.** Sanberg, who did the sci-work to prepare the tumor cells University of Pittsburgh trials, ginally focused his research on on's disease. That changed a few go. "My father had a stroke," he l. "I watched his therapy, and as n't been anything new in the years. I thought, 'Isn't there ng we can do to help this man?'" animal studies have revealed an g new discovery: When neurons isplanted into a living brain, they

seem to know just what to do. The cells don't spread randomly through the brains, grabbing on wherever they can. Instead, they begin to develop into various types of brain cells. Each type migrates to the place it belongs and wires itself up in the proper way—just as if Nature had done it herself. Something in the mice's brains is cueing the injected cells to do what is needed to repair damaged brain parts. This works even when human cells are injected into mice brains—suggesting that mice and human brains use the same cues.

Snyder has also shown that the neurons can be used to correct inherited disorders. He grew mouse brain cells that carried the mutant gene responsible for Tay-Sachs disease, a fatal disorder that poses a special risk to Ashkenazi Jewish populations. He then added human neurons with the normal form of

the Tay-Sachs gene. The new genes smoothly took over, supplying a missing enzyme, and the problem was corrected.

Dr. Mark H. Tuszynski of the University of California at San Diego described another approach using gene therapy to carry a substance called nerve growth factor into the brain. The addition of the growth factor, he says, should help slow and reverse damage associated with Alzheimer's disease before brain cells are destroyed and a neural transplant becomes necessary.

In a few months, Tuszynski will seek approval to use the technique for the first time in humans. He plans to take small samples of patient's skin cells, genetically engineer them to produce nerve growth factor, and inject them into patients' brains. If this were done even several years after the diagnosis of Alzheimer's, it might prevent the loss of mental functions, he says.

"LEAP OF FAITH." Several biotech companies have entered the race to develop brain transplant techniques, Sanberg says. They include Diacrin in Charlestown, Mass., and Genzyme Corp. in Cambridge, Mass., which are collaborating on human experiments with fetal pig cells to treat Parkinson's and other disorders. And two scientists from McKay's lab at the NIH have left to form a company called Neural Stem in College Park, Md., to try to advance some of McKay's findings.

Part of the excitement arises from the fact that cells transplanted into the brain do not seem to face rejection by the immune system, as is the case with, say, liver or kidney transplants. The reasons are not entirely clear, but the finding is significant. It means brain-cell transplants are likely to survive a long time—which is essential if they are to correct brain damage. It also means that cells will not have to be matched to individuals, as is done for blood transfusions or other organ transplants.

McKay believes the current research could one day lead to treatments even for the slow, steady brain deterioration that occurs with old age. "When you look at old people, you think they're just losing it—they're running down," he said. "But that's not right. All the cells are still there. What's changing is the nature of the conversation between the cells.... And I know that these processes can be slowed, stopped, corrected."

Of course, whether the success in mice will be repeated in human beings is an unanswered question. "We always believe that what we're doing in animals will have relevance to humans," Snyder said. "But it's a leap of faith." Within a few years, researchers should find out whether that leap is justified.

By Paul Raeburn in Anaheim, Calif.

PEERING THROUGH THE MICROSCOPE

A roundup of reports from this year's U.S. confab of scientists

In January, 4,000 scientists gathered in Anaheim, Calif., to discuss a dizzying array of topics, such as El Niño, human mating patterns, and anti-aging research. This year's meeting of the American Association for the Advancement of Science included research on disease and environmental hazards as well as big-picture stuff—for example, "The Fate of the Universe." Several hundred reporters attended, including a contingent from BUSINESS WEEK. Here is a report:

MOLECULAR MOTORS

SCIENTISTS ARE SHRINKING machines into the realm of the microscopic, carving minuscule motors and gears out of silicon. But at the University of California at Los Angeles, chemist Fraser Stoddart is thinking much smaller. His goal is to create machines fashioned from individual molecules. "It's one of the challenges for the next century," he says.

In the labs of Stoddart and others, the work is showing promise. Stoddart's team, for instance, has created molecules shaped like rings, rods, and dumbbells. With clever chemistry, researchers can get different shapes to interact in repeatable ways. In one system, scientists have been able to drive a rod-shaped molecule in and out of the cavity of a ring-shaped molecule—in essence, creating a tiny piston. In another, Stoddart can slide a ring back and forth along the bar of the dumbbell molecule—a miniature switch. And they have used combinations of rods and rings to create logic gates, in which different chemical inputs (such as dumping in acids or bases) cause the rods and rings to link up or separate, giving the whole chemical solution different properties.

So far, Stoddart's molecular machines function only in liquid, a big limitation to practical applications. The scientists are now seeking ways to hook the molecular machines onto a solid surface.

Once that's done, it may be possible to create unimaginably small versions of everything from motors to computers. *John Carey*

A FRUIT FLY NAMED METHUSELAH

PEOPLE HAVE BEEN SEEKING the fountain of youth for centuries. And some scientists think they may have found it, in the form of antioxidants such as vitamins A, C, and E. In fact, they are using antioxidants to extend the life of fruit flies.

According to R. S. Sohal of Southern Methodist University in Dallas,

aging is caused in part by free oxygen radicals that are produced as cells break down nutrients. These oxygen radicals damage the mechanisms that power our cells. With age, such damage appears to increase exponentially, probably because harmful oxidants are present in greater concentrations than antioxidants, which roam the body cleaning up free radicals.

To test this hypothesis, Sohal engineered fruit flies that produced high levels of two antioxidants. He found that the genetically altered flies lived 34% longer than normal and were far more active. But Sohal cautions that there's a lot of research to be done before it's established that antioxidants will do the same for humans.

Ellen Licking



CAN SCORPIO STOP CANCER?

THE GIANT YELLOW ISRAELI SCORPION MAY HOLD THE key to new therapies for a previously untreatable and deadly brain tumor called glioma, which affects 24,000 Americans a year. Harald I. Sontheimer, a neurobiologist at the University of Alabama at Birmingham, has discovered that the scorpion's venom contains a poison called chlorotoxin, which binds to malignant glioma cells. The toxin itself doesn't kill the glioma, but it can be combined with other anticancer chemicals, such as saporin. The scorpion poison then acts as a warhead, delivering saporin to the tumor cells. Sontheimer is currently testing the treatment in mice and hopes to begin human trials later this year.

Based on biopsies of 24 glioma patients, Sontheimer discovered that the cancerous cells contained a type of chemical conduit not found in normal brain cells. Figuring it might be linked to the spread of the cancer, he looked for a compound that would seek out and bind to the conduit. Now, in conjunction with TransMolecular Inc., a Birmingham biotech startup, he is trying to develop chlorotoxin commercially.

Ellen Licking



THE FUNGUS THAT EATING FLORIDA

FLORIDA'S CORAL REEFS be early victims of global warming. A team of University ecologists they have found that year-old corals grow around Florida are suffering to infections that merly survived. The suggests that higher temperatures could be causing stress on the corals, increasing their susceptibility to disease. The Coral Monitoring Program, funded by the Environmental Protection Agency, reports that 82% of sites in Florida Keys show signs of disease. And while coral reefs worldwide have suffered damage recently, researchers say those in Florida are particularly vulnerable because of seasonal temperature fluctuations and freshwater runoff.

The Cornell biologist by C. Drew Harvell reports that a common soil-borne fungus called aspergillus has been swept into the reefs through erosion, infecting 40% of the sea fans in the keys. It collects in the flexible, fan-shaped structures of the coral, causing dark, pale-colored lesions that James W. Porter, a coral expert at the University of Georgia at Athens, says the land-to-sea spread of aspergillus is a serious cause for concern—and a potential sign of the damage humans are doing to the ecosystem. *Ellen Licking*

When the employees of Capital One had some things to say about their unusual working conditions, they went straight to the authorities.

The authorities, that is, who publish a survey in *Fortune®* magazine. The ones who travel the country every year and compile the 100 best companies to work for in



America. After talking to 27,000 employees nationwide — including many of ours — Capital One landed prominently at #41 on the list.

Were we honored? Who wouldn't be, alongside Intel, Starbucks, Nordstrom, Sun Microsystems and L.L. Bean. Actually, truth be known, we were ranked even higher than they were.

So what does it take to make this list, let alone the top half of it? A lot.

The survey considered pay, benefits, vacation, child-care and dress code. But they also measured things that only the people who work there can describe and quantify. Like trust in management. Pride in work. Job security. Openness of communication

between management and workers at all levels. And, not to be underestimated, how much fun people have at work. We scored high on all counts.

At Capital One, our associates (the

word we use instead of employees) come first. All full-time associates receive medical, vision and dental coverage starting the first day on the job. Not to mention, 10 paid holidays, 3 family care days and 3 weeks of vacation the very first year on the job.

We don't just help pay for child-care, we go out and find it for everyone who needs it. And of course, there is a great 401K plan and casual dress all week long. But the ways we respect our associates go beyond that.

People at Capital One are rewarded for performance, not for the position they happen to hold. Everyone is offered stock in the company.

And always at a 15% discount.

Everyone is eligible for cash incentives. Everyone is eligible for 100% tuition reimbursement when they continue their education.

So what about this concept of fun in the workplace? Capital One managers have a quarterly "fun budget" for every person they manage, to make sure work and play stay in balance.

Does all this really translate into a great place to work? Looking at the numbers, 93% of the people who work for Capital One are happy with their benefits. 90% voted this a fun place to work. And 95% say they are proud to work here.

Capital One is one of the leading credit card issuers in the country, and we continue to experience extraordinary growth. We now employ more than 10,000 people nationwide. If you're not one of us, maybe you should be. For more information on the many positions available, visit our website at www.capitalone.com.

Capital One

Capital One is an Equal Opportunity Employer committed to diversity in the workplace.
We promote a drug-free environment.



WHICH CAME FIRST. THE STORAGE OR THE DATA?

In a wireless world – where everyone from sales reps in the field to workers in the factory walks around collecting information on laptops, PDAs and other devices – storage has already become a major e-business issue.

And with companies increasingly being connected to each other by extranets and the Web, and end users accessing more and more information and downloading audiovisual files, storage needs are growing infinitely.

Clearly, companies need a storage strategy: one that helps them to control their information, and leverage it to their competitive advantage.

This is the kind of issue that IBM can help you with. We'll assess your storage needs, and help you design a solution that works for your business today and allows for growth tomorrow – even if you're not using IBM technology.

IBM is constantly developing reliable, state-of-the-art storage tools and services for e-business. Revolutionary multihost tools like our Virtual Tape Server™ can store and protect colossal amounts of information. Or our Versatile Storage Server can centrally store information and be used simultaneously by multiple platforms from other vendors. But effective storage is no longer just about hardware. IBM StorWatch™ software enables administrators to efficiently manage storage resources located anywhere in the enterprise from a single control point.

To start collecting information about IBM storage, and to see impressive examples of how effectively information can be stored, organized and accessed for your e-business, visit www.ibm.com/e-business or phone 1 800 IBM-7080, extension NC53.

STOCKS

BEAR ON THE LOOSE AT MERRILL LYNCH

Why its investment-strategy team favors bonds over stocks

An old pro at handling live interviews with CNBC anchors, Charles I. Clough Jr. nonetheless found himself on the spot one Monday morning late in January. Pointing out how the chief investment strategist at Merrill Lynch & Co. has been cautiously advising clients to keep most of their assets in high-quality bonds, CNBC's Consuelo Mack bore down. Fifty-five percent in bonds, she mused, was "a very gutsy call."

No, Clough protested, "this is not a

defensive strategy at all." But next to Merrill's rivals on Wall Street, it's downright bearish (table). It also is a stance that Clough and his colleagues at the world's biggest brokerage firm must take pains to explain because, at least since last summer's swoon in stocks, it has been wrong.

Clough, Merrill's top guru since 1987, has been bearish for several years now. In early September, he suggested the Dow Jones industrial average might sink an additional 15% or more before stabilizing. Instead, from its closing low on Aug. 31, the Dow has leaped almost 24%, while the broader Standard & Poor's 500-stock index has surged nearly 31%.

"INTEREST-RATE BULLS." Even as such rivals as Lehman Brothers Inc. advised clients to continue holding as much as 80% of assets in stocks, Merrill Lynch last summer kept advocating just 40% in equities. More prominently, the brokerage firm directed its brand-new advertising agency, WPP Group's PLC's J. Walter Thompson, to buy a series of cautionary, full-page newspaper advertisements. One of them, "Putting the

world in perspective," noted Merrill's preference for quality bonds and such defensive stocks as utilities. "The global marketplace," it noted, "is getting more complex and uncertain every day."

This is Merrill Lynch?

The firm's outlook is a far cry from the image Merrill has so long cultivated via its logo—a bull, ready to charge—and its venerable slogan, "Merrill Lynch Is Bullish on America." Charles Mangano, Merrill's senior director of marketing, describes the skittish stance as "an evolution" of the firm's trademark optimism, "a very, very tactical assessment of what was going on in the world, because the market was gyrating the way they were." The campaign set for early March, however, "will be just as optimistic and hopeful as the bullish [on America] one was."

If so, the campaign will surely clash with the steadily downbeat tone Clough has been offering on, which flows from his fundamental belief that the world economy suffers

Merrill Lowballs Stocks

FIRM	RECOMMENDED ALLOCATION		
	STOCKS	BONDS	CASH
GOLDMAN SACHS	70%	27%	0%
LEHMAN BROTHERS	80	20	0
MORGAN STANLEY DEAN WITTER	65	20	15
PAINWEBBER	64	22	14
PRUDENTIAL	75	20	0
SALOMON SMITH BARNEY	55-60	40	0-5
MERRILL LYNCH	40	55	5

*Commodities

**Real Estate

DATA: BUSINESS

too much capacity and, with interest rates falling, deflation. So, he says, profit margins will narrow, corporate investment will dwindle, and the U.S. economy will slow. That in turn will cut a point off rates on long-term Treasuries, creating the prospect this year of a total return on long-term Treasuries better bet to Clough than the digit gain he sees for the major stock indexes. "I like to explain our strategy this way," Clough says. "We're not interest-rate bulls and profit bears."

Merrill also may be sounding more cautious as its clients' needs change. Take Brent Burval, 28, a civil engineer in Phoenix who has had an account at Merrill for six years. The cash he periodically puts into his account is invested automatically in mutual funds, a setup that suits him just fine. "They're a good outfit," he says. "I'm pretty conservative." Burval pays little attention to the firm's

AGAINST THE GRAIN

Clough sees a 27% total return on long-term Treasuries



and if he wants to buy an individual stock, he uses E*Trade. "They've got better commissions and stuff." That says discount broker Muriel Nazzari, "is pressuring all full-service firms to develop new roles."

LOGETIC. These broader money-management goals of Merrill go well beyond the aims of simple stock trading and are at the core of the firm's business when it came up with its "Bullish America" slogan in 1971. And they're on Clough's work. "Today," he says as Americans age, we are older, the market is a little closer, and in an environment like that, I think money management is a much more complicated. For one thing, preservation of assets becomes more important."

Of course, it never hurts for gurus to offer a contrarian view. More controversial—and a better money-maker—has been the advice of such strategists as Lehman's Jeffrey M. Applegate and Prudential & Co.'s Joseph Battipaglia, who expect the economy, corporate earnings, and stocks to remain strong in 1999. Applauding Clough's consistent and long-running correct bet on stocks, Battipaglia notes the Merdel has nonetheless led Clough on stocks.

But all this, Clough seems little concerned about. He puts off a question about why Merrill brokers are impatient with him as "silly stuff. All they're looking for from me is ideas." Ironically, the "focus list" of 15 U.S. stocks, including such names as Pfizer and Johnson & Johnson, is up a solid 6% since he issued it in December. Clough has opted for more aggressive moves over the past year to exploit such beaten-down markets as Korea and Japan, which dovetail with Merrill's rapid foreign expansion.

But for preferring bonds to stocks, Clough is unapologetic. "It's the best way to handle events we can come up with," he says. "We think it'll be a money-making strategy. And we'd argue it was a good one." The 30-year Treasury actually performed the average mutual fund handsomely, 18% vs. 14% in total return. He views the big, red-hot stocks, such as Microsoft and Dell, dimly as a mutual fund, every pension manager, they've all wedged them into the same 15 stocks, and they're kind of expensive," Clough says. "Why are they stay expensive? Yeah."

Clough's cautious views may yet sound. But that won't square it with Merrill's old image. The day that Merrill Lynch doesn't cross as optimistic and confident, chief marketer Mangano, "then we're only all have a problem."

By Robert Barker

IS YOUR BOTTOM LINE COVERED?

Bold new insurance policies protect companies against disappointing financial results

Just imagine: Neither rain nor sleet nor collapsing sales could keep your company from delivering its projected earnings on time. No more investors outraged by nasty surprises. The results are guaranteed because your company simply bought an insurance policy that pays out when earnings fall short.

What sounds like a pipe dream is fast becoming reality, as insurers rush to design bold new policies that protect companies against bad financial results. On Jan. 28, New York's Reliance Group, for one, launched a radical product called Enterprise Earnings Protection Insurance that covers any operating earnings shortfall due to events beyond management's control. Let's say a company wanted a guaranteed \$40 million in annual profits. If it posted a \$10 million loss, Reliance could make up the difference, after a deductible. No need to debate whether the poor results stemmed from blizzards or Brazil's economic woes. Except for situations over which management has control, Reliance would pay out up to \$50 million.

And that's just a start. Reliance plans to expand coverage levels and sell the policy to European companies within six months. "Chief financial officers are looking for ways to deliver to expectations," says Mario Vitale, president of Reliance's casualty risk services division. "And investors love the idea because it means less surprises."

OFF THE SEESAW. With the property/casualty business in a serious slump, insurers are racing to take on risks that few would have thought insurable. Industry giants like American International Group Inc. and broker Marsh & McLennan Cos. have covered dozens of clients for everything from future movie receipts to a general business downturn. "We're seeing a lot more deals where companies want a financial guarantee, not just a hedge on earnings risks," says Bob Partridge, a director at Standard & Poor's Corp.

Reliance and its competitors are going further, aiming to insure a big chunk of actual cash flow. That, say proponents, could revolutionize corporate strategy by making seesaw sales and earnings a thing of the past. "If you live in a volatile world, it might be worth spending some money to take out the peaks and the valleys," reasons Tobey Russ, president of AIG Risk Finance. Buying into a company could become like buying a Treasury bond with

PROFIT PROTECTION

Most insurers handle earthquakes and explosions. A few are going further: guaranteeing a company's sales and earnings.

BRITISH AEROSPACE The deal: \$70 million policy to guarantee \$3.7 billion in revenue from aircraft leasing until the end of 2013.

HANSON The deal: A \$275 million policy to provide \$800 million in coverage for environmental and roof-product liabilities of the former operations of Beazer. The reason: To remove liabilities from the balance sheet—and preferably hike Hanson's stock price.

HONEYWELL The deal: Blanket policy to insure foreign exchange exposure along with other risks; may expand to include interest-rate hedges, weather, and commodity prices.

TORO The deal: \$400,000 policy to cover up to \$9.5 million in refunds for a snowfall-related promotion scheme; based on projected sales and snowfall.

DATA BUSINESS WEEK

With the insurance business in a serious slump, companies are willing to take on new kind of risks

guarantees of safe returns. "You might even insure share price," says Leslie Rahl, a principal of Capital Market Risk Advisors Inc. in New York.

Would this mean the end of volatility as we know it? Not likely. Insurers themselves could get burned on bad bets. Regulators also fret that policies might hide a company's true health or be less than transparent in what they actually protect.

And predictability has a price. Insurance that aims to smooth out revenue lows will likely cut into the highs. And while investors hate unpleasant earnings surprises, they may also balk at paying a hefty fee—or giving up potential profits—to guarantee steady results. Further, an insurer will keep providing coverage only if it keeps making a profit—which means the company may come out on the losing end of the stick. As Harris Chorney, national director of KPMG Peat Marwick's insurance practice, puts it: "If management needs insurance to get the right earnings per share, I think you need to question management."

SNOW JOB. Many companies, though, seem to like the idea of removing clouds of uncertainty that linger over the bottom line. British Aerospace PLC recently bought a special policy that guarantees its aircraft-leasing business will generate \$3.7 billion in revenue over the next 15 years. Essentially taking a volatile business off the books, says spokesman Jeremy Barnes, sent the company's share price soaring. Toro Co. of Bloomington, Minn., tried to pump up snow-blower sales this winter by offering refunds based on inches of snow. Rather than risk the big payout that warm weather could bring, the manufacturer estimated its sales and bought a \$400,000 insurance policy to fund up to \$9.5 million in refunds.

Honeywell Inc. in Minneapolis is taking a broader approach. It is bundling

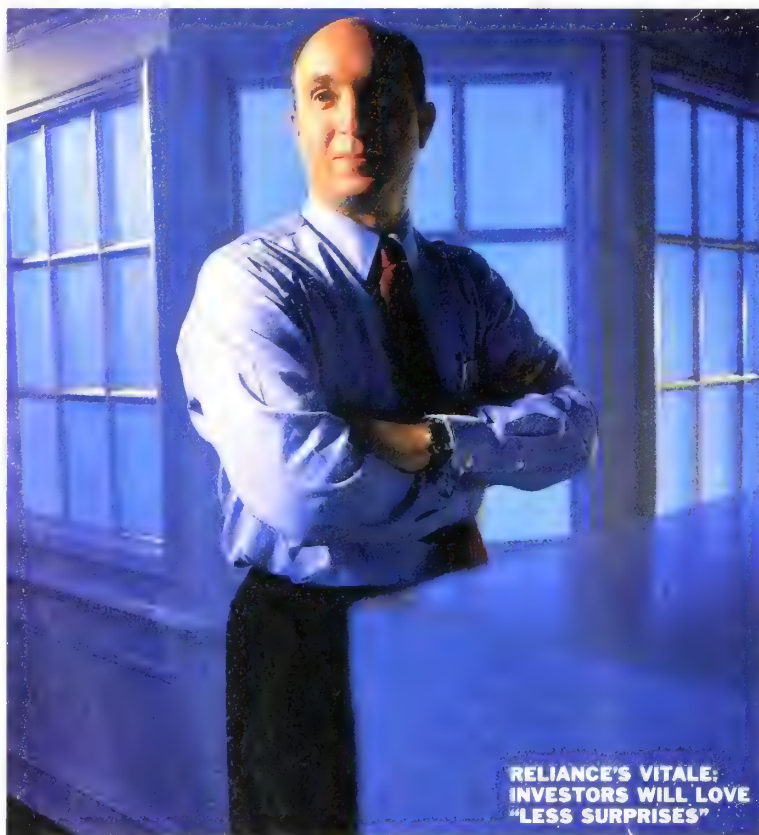
much of its foreign-exchange exposure with other risks under a blanket insurance policy with one deductible arranged by AIG. By blending a broad range of risks together, the company gets a cheaper overall premium and the flexibility to include perils that might be hard to insure on their own. Honeywell's director of global insurance risk

whether an insurance product does more efficiently remains to be seen.

That's not all that remains to be seen. Securities & Exchange Commission officials ask how companies would set the terms of an insurance deal to manage earnings. "We're concerned about anything that tries to hide the financial state of a company," says a SEC official.

While clients may be happy to hand over the reins to Reliance and other insurers, what about the company's risks? Under a new policy, the company's revenue risks not covered are accounting for employee strikes or other perils that fall under management's discretion. What constitutes management's discretion, of course, is a fuzzy line itself.

Also fuzzy is trying to predict the volatility of a client's earnings. L. Strohl, CEO of Swiss Re Systems Group in King of Prussia, Pa., says the firm is using its expertise to "help expose the [company's] business risks," and to determine policy premiums. Reliance's own exposure is hedged through partnerships with Swiss Re and American Corp. The risky Reliance call



management, Tom Seuntjens, says the controls-technology manufacturer is now looking at insuring against weather disruptions, interest-rate bumps, and poor sales of new products under the same scheme. "We're trying to make our earnings more predictable," says Seuntjens. "We look at this as a great opportunity to smooth out other areas of risk... It's a plus for everyone."

Yet Honeywell isn't ready to insure its entire balance sheet. It insured nearly all of its foreign sales income last year but still handled another \$1.1 billion more through traditional capital-market instruments. Bill Kelly, a managing director at J.P. Morgan & Co. in New York, argues that banks have a long history of helping companies cope with such financial risks, adding that "the question of

can pay as little as 5% of estimated loss against a 20% fluctuation in operating earnings. "The bigger the risk, the bigger the retention" or money the company pays on claims, says Vitale. He even plans a product aimed at companies setting up an IPO to "convince potential shareholders that they will see certain earnings projections."

In the end, though, the biggest blunders may be the insurers themselves. Michael Smith, an analyst with Stearns & Co., argues that, with the industry in a slump, insurers are likely to expand the definition of what is insurable and "that usually leads to underwriting disasters." That could lead to messy lawsuits that ultimately put risk back in the hands of investors.

By Diane Brady in New York



MARKET

PLAYING THOSE INTERNET STOCKS

at these prices, there are strategies to play

Net stocks have had a wild ride—it is getting wilder with each passing day. Amazon.com Inc. sold 10 million in books and CDs last and lost money, but its \$20 billion market value makes it worth \$5 more than Sears Roebuck & Co. Comes as no surprise that the conventional wisdom holds that Internet are headed for a crash.

Investors interested in high-growth companies have few better places than the Internet. Consumer commerce over the Web has expanded more than 200% last year, to \$10 billion, and should grow at least 20% again this year, predicts the Consulting Group Inc. Business-to-business commerce over the Net, \$50 billion in 1998, will grow at about the same rate as the consumer market.

Wild price swings are not about to change—but neither will the growth in Internet commerce. Here is the case for playing Internet stocks.

Many top tech-fund managers scoff at the high prices of Net stocks. If they're staying away, why shouldn't I?

Because they're going to buy Net stocks anyway—they have to. Prudential Securities Inc. market strategist Claudia Mott figures that half of the 14% gain in the stocks of the Standard & Poor's 500-stock index in last year's fourth quarter was attributable to Internet stocks, and Internet stocks made significant contributions to other indexes as well. Thus fund managers "will either have to own Internet stocks or be very proficient in picking other stocks" if they want to beat their benchmarks this year, says Brian E. Stack, manager of the MFS New Discovery Fund.

So where's the best place to look for Internet stocks?

One tried-and-true method is to pick companies likely to emerge as a dominant franchise, capable of sustaining a

high growth rate. Some top investors own only the biggest Internet stock:

America Online Inc. Fidelity Magellan manager Robert E. Stanisky made it his second-largest holding in the fourth quarter of 1998. He would have bought other top Net stocks but couldn't buy

enough shares at low enough prices to help the performance of his fund. It's a safe bet he's going to buy more on dips this year.

Ron Elijah, manager of the Robertson Stephens Information Age fund, owns Amazon, AOL, and Yahoo!.

Charles A. "Chip" Morris, who runs T. Rowe Price's Science & Technology Fund, owns AOL and E*Trade. Stack, a small-cap specialist, owns Sportsline USA Inc. and Scholastic Corp. Elijah and Morris own companies such as Cisco Systems Inc. and Sun Microsystems Inc. They're not pure Net plays, but their growth is closely tied to the Net.

Of course, retail investors can always leave Internet investing to a mutual fund. Internet funds, such as

Munder Capital Management's NetNet fund (up 24.5% this year through Jan. 26), were among the country's top-performing funds last year.

If everyone's so sure there's going to be a correction in Net stocks, why invest now?

Not everyone should. Buying Internet companies with loopy valuations is a gamble. As long as companies such as eBay Inc. trade at as high as 2,000 times expected 1999 earnings, you might as well buy a lottery ticket. Shares in companies that show even the slightest problems stand to get decimated. "These are virtual casino stocks," says T. Rowe Price's Morris.

The key is to buy on dips the stocks you want to own. In the week of Jan. 18, many big Net stocks fell nearly 50%, and they're already moving back up. Elijah picked up Amazon.com in the low 90s, and it moved to 115 within a week. "So what if it's valued more than Sears," he says. Amazon's fourth-quarter sales nearly quadrupled over 1997, "and compared to that, Sears is dead," he says.

Not everyone is willing to bet that Amazon can sustain such growth. Yet Elijah, a savvy tech investor with years of experience, has made a tidy return from the investment. He knows that Internet companies, possibly including Amazon, are going to crash hard at some point, if not several times. Even so, Net stocks are by far the most powerful growth machines to hit the markets in a long time.

By Geoffrey Smith in Boston

BY GENE G. MARCIAL

MICROSOFT DUMPED INKTOMI. SO WHAT?

Internet software provider Inktomi (INKT) is not a stock for the faint of heart: In the past five months, it has often jumped or dropped 10 to 15 points in a day—on little provocation. After hitting a high of 178 on Jan. 11, it slid to 148 on Jan. 25. The next day, Microsoft announced that it was phasing out Inktomi's Internet search service as the primary platform for Microsoft's Web network (page 53). Inktomi's stock fell almost 20 points, to 129. Is it downhill from here?

No way, say some pros. Although a lot of momentum players bailed out, not a few Inktomi fans bought shares as the price sank. "It wasn't a major setback—just a speed bump," insists John Leo, who heads Northern Technology Fund, a unit of Northern Trust. "We view the big drop as a terrific buying opportunity, so we're adding to our position."

Analysts Rakesh Sood and Michael Parekh at Goldman Sachs stood pat, reiterating their positive "market outperform" rating on Inktomi. Leo notes that Microsoft's move to replace Inktomi's search technology with that of AltaVista, a Web-search and navigation site of Compaq Computer, reflects the business relationship that Microsoft is continuing to build with Compaq—Microsoft's largest customer. "It's not indicative of any concern about Inktomi's technology," he adds.

Microsoft makes up less than 5% of Inktomi's revenues, says Leo, and he's sure Inktomi can recoup the loss through new customers. He notes that Inktomi provides its search technology to 18 big companies, including Yahoo!, America Online, and Lycos.

Apart from its search technology, Inktomi also has a "traffic server" product that stores data close to where it is needed by Internet users. Inktomi

has a new product that will provide "comparison shopping," to compare prices and information on various products online.

Last year, Inktomi's sales quadrupled, to \$20.4 million, and Leo expects them to continue growing—to \$60 million in 1999 and \$110 million to \$125 million in 2000. Still in the red, Inktomi should break even by 2000, he figures.

SAFEGUARD'S HOARD OF IPOs

Safeguard Scientifics (SFE) has little to do with safety or science: It is a venture-capital company that acquires stakes in young info-tech outfits. After funding and managing their development, Safeguard takes them public. "Safeguard is a way to participate in the venture-capital business and benefit from the huge returns," says Stuart Rudick of Rudick Asset Management in Mill Valley, Calif. Currently trading at 37, the stock is worth 55, says Rudick, based on the value of its portfolio.

Sherri Wolf, an analyst at Adams, Harkness & Hill in Boston thinks the value of Safeguard's portfolio of private companies has yet to be recognized. To determine Safeguard's value, investors will need to assess both its public and private holdings, she argues.

"We have identified three [initial public offering] prospects that could greatly enhance Safeguard's bottom line," says Wolf. They are on deck to go public this year "in hot markets, such as business-to-business Internet commerce," she says. One of them is Internet Capital Group, which already owns 15 Internet companies, including 50% of VerticalNet. This company has filed for an IPO later this year.

Internet Capital, also scheduled to go public this year, has attracted high-powered investors GE Capital and Comcast, which have put in seed money. "Internet Capital will have the largest impact [as an IPO] if exuberance about

the Net continues," says Wolf. "It will be a great year for Safeguard."

THIS COIN HANDLER IS ON A ROLL

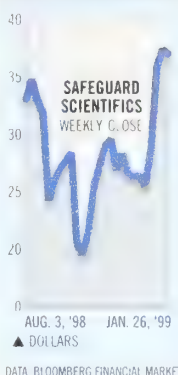
Cash Technologies (CHNG), which makes machines that deal loose coins, is getting to be worth a pretty penny: From 5½ in mid-1998, the shares have nearly doubled to 10½. What's driving up the price?

The coming of the euro has produced a big potential market for Cash Technologies' unusual coin-processing machines, says analyst Casey Starr of Starr Securities in New York. A 70 billion coins will have to be minted in Europe when the new currency circulates in July, 2002, he says, so demand for Cash Tech's self-service CoinBank deposit machines will surge. The company has reached an agreement with Bank Austria to install its machines on a trial basis. The machines are software-driven and allow any type of coins to be programmed for acceptance now and converted for euro coins later.

The machine sorts and counts coins and then dispenses either a receipt through an automated teller machine or a receipt redeemable in cash. Cash Tech gets a 7% consumer fee, which it splits with the bank or store where the machine is installed.

The difference between CoinBank and the machine of rival Coinstar, says Stern, is that CoinBank provides other uses too, including card transactions, payment of bills, dispensing prepaid phone cards. Cash Tech revenues at \$60 million in 1998, \$70 million in 1999 and \$110 million in 2000. Cash Tech will lose money this year, but he expects will earn 50¢ to \$1 a share in 1999. His 12-month target for the stock

BOUYED BY NET EXUBERANCE



DATA: BLOOMBERG FINANCIAL MARKETS

LATELY, 'JUST A SPEED BUMP'



DATA: BLOOMBERG FINANCIAL MARKETS

WORTH A PRETTY PENNY



DATA: BLOOMBERG FINANCIAL MARKETS

BusinessWeek ONLINE

For more coverage of the market, visit our Web site at businessweek.com



Connect with Asia

NTT — The ideal choice for *reliable* communications.

rcstar Advanced global communications from NTT.

rcstar offers you a uniquely *reliable* global connection. In fact, no one offers a stronger connection to Asia and the Pacific. In Japan, for example, NTT has been providing fully dependable communications for more than a century. As one of the world's leading telecom providers, NTT can provide you and your global offices with an unsurpassed level of service. From round-the-clock multi-language assistance and business support to emergency backup. Now, connecting with Asia is a simple matter of connecting with the right partner.



Builders of the infocommunications age

TOKYO • BANGKOK • BEIJING • HANG KONG • JAKARTA • KUALA LUMPUR • MANILA • SEOUL • SHANGHAI • SINGAPORE • TAIPEI • TIANJIN • YOKOHAMA • AMSTERDAM • BRUSSELS • DUSSELDORF • GENEVA • LONDON • PARIS • CHICAGO • NEW YORK • MOUNTAIN VIEW • LOS ANGELES • WASHINGTON D.C. • RIO DE JANEIRO • SAO PAULO

For more information on how NTT can connect you, call 1-800-4-NTT-USA.

<http://info.ntt.co.jp/global>

Mutual Fund Scoreboard

BONDS

SEARCHING FOR SAFE HARBOR

Here's how to find the best bond returns at the least risk

When it comes to bond mutual funds, the old rule was "yield sells." When interest rates were high, investors would buy bond funds to capture the rich payouts. So how come investors snapped up bond funds in 1998 when yields were at 30-year lows?

There's a new rule at work these days. Safety sells. And in last year's wildly swinging stock market, bond funds often seemed a welcome safe harbor. Investors poured money into bond funds at a rate not seen in years, while the money going into equity funds slipped well below the record 1997 level. Bond funds took in net cash of about \$74.8 billion last year, according to AMG Data Services. That's more than three times 1997's inflows.

Are bond funds really all that safe? Not all harbors are equally protected. Last summer's global flight to quality benefited U.S. Treasury bonds the most, giving long-term government bond funds the year's best total return, up 11.7% (appreciation plus reinvestment of dividends and capital gains). The flip side of that was a flight from anything that wasn't quality. Last year, high-yield, or junk-bond, funds had their worst year since 1994, with a -0.3% total return. Emerging-markets bond funds were down more than 25% (table), which was nearly as bad as the returns from emerging-markets equity funds.

THE "A" LIST. To help you sort out the risks of bond-fund investing, we bring you the next installment of BUSINESS WEEK's Mutual Fund Scoreboard. In the tables that start on page 93, we report on 653 taxable and tax-exempt bond funds. We look at one-, three-, and five-year returns, yield, maturity, and expenses. Watch those expenses—in a low-yield world, those costs can eat into returns. And at our Web site, we have more data on these bond funds plus more than

1,100 others. All the data are prepared for BUSINESS WEEK by Morningstar Inc.

The highlight of the Scoreboard is the BUSINESS WEEK ratings. Each fund with at least five years of performance history is rated based on its risk-adjusted total returns. Those with the top risk-adjusted returns get A ratings. This year's A list has 98 funds ranging from ultrashort bond funds, whose net asset values barely fluctuate, to long-term government funds, which can gyrate considerably (page 91). What brings these funds together on this list is that they all earned superior returns for the

amount of risk they took. The table compares taxable funds with other taxables, and tax-exempts with other tax-exempt funds. We also have a series of ratings, which compare funds with others in the same category. If you're looking for the best-rated national or short-term municipal funds, turn to the table on page 94. **NEW FUNDS.** We've also made several additions to this year's Scoreboard. For starters, we've added five new categories. We separated volatile emerging-market bond funds from the more stable international funds that invest in quality bonds issued in developing countries. International funds earned a total return in 1998, the second-best performing category. They profited from a global drop in interest rates, as well as the central banks of several countries. Among the tax-exempt funds, we've separated California and New York—large, high-tax states with a lot of funds—from the broader single-state categories and created a long-term intermediate-term group for each.

There's more. The ultrashort category—funds that invest in securities between the 90-day maturity of the money market funds and the one-year maturity of short-term bond funds—has been expanded. Our listings include loan participation funds, which operate under slightly different rules than do the other funds. Like conventional funds, they issue shares whenever an investor wants to buy in. But investors can withdraw money once per quarter and on a predetermined date. The reason for these restrictive redemption procedures is that the funds invest in senior secured bank loans that are illiquid.

But the reward for accepting these restrictions can be substantial. The loans reset every 30 days, so the portfolio is well insulated from interest-rate fluctuations. Depending on the borrowing rate ranges from 0.75 to 3 percentage points above the Interbank Offered Rate (IBOR), the global benchmark for borrowing, now 5%.

"Our goal is to provide a consistent yield advantage over money-market funds with the share price stability," says P. F. Swaffield, co-manager of Eaton Vance Prime Rate Income. In its nearly 10-year history, the fund's net asset value has

Bond Fund Categories: How They Fared

	AVERAGE ANNUAL TOTAL RETURN*		
	1998	1996-98	1994-98
LONG GOVERNMENT	11.7%	7.6%	7.9%
INTERNATIONAL	9.8	6.6	5.8
INTERMEDIATE (GENERAL)	7.5	6.5	6.5
INTERMEDIATE GOVERNMENT	7.4	6.2	6.1
LONG-TERM (GENERAL)	6.7	7.0	7.2
SHORT-TERM (GENERAL)	6.4	5.8	5.4
MUNICIPAL CALIFORNIA LONG	6.1	6.4	5.8
MUNICIPAL NEW YORK LONG	6.1	6.3	5.5
SHORT GOVERNMENT	6.0	5.5	5.2
MUNICIPAL CALIFORNIA INTERM.	5.7	5.9	5.4
MUNICIPAL SINGLE-STATE LONG	5.6	5.9	5.4
MUNICIPAL NATIONAL INTERM.	5.6	5.7	5.3
MUNICIPAL NATIONAL LONG	5.5	6.2	5.6
MUNICIPAL SINGLE-STATE INTERM.	5.4	5.6	5.2
ULTRASHORT (GENERAL)	5.2	5.7	5.5
MUNICIPAL NEW YORK INTERM.	5.2	5.2	4.6
MUNICIPAL SHORT	4.7	4.6	4.4
CONVERTIBLES	4.4	12.3	10.6
MULTISECTOR	1.9	6.6	6.0
HIGH-YIELD	-0.3	8.5	7.5
EMERGING MARKETS	-25.2	4.8	2.4
ALL BOND FUNDS	5.6	6.2	5.8
TAXABLE BOND FUNDS	5.7	6.6	6.3
TAX-FREE BOND FUNDS	5.5	5.8	5.3

*1994-1998 pretax returns, includes appreciation plus reinvestment of dividends and capital gains

DATA: MORNINGSTAR INC.

The Bond Fund A-List

These 98 funds earned A's, our ratings for superior risk-adjusted returns over the past five years

	AVERAGE ANNUAL TOTAL RETURN*	INVESTMENT CATEGORY	FUND	AVERAGE ANNUAL TOTAL RETURN*	INVESTMENT CATEGORY
AX-FREE INTERMEDIATE	5.0%	Muni. Short	MONTGOMERY CALIF. T/F INTERMEDIATE BD. R**	5.8%	Muni. Calif. Interm.
ICAN CENT.-BENHAM CALIF. MUNI. HIGH-YIELD	6.9	Muni. Calif. Long	MONTGOMERY SHORT-DURATION GOVT. BD. R	6.4	Short Government
ICAN CENT.-BENHAM CALIF. T/F LIM.**	4.3	Muni. Short	MORGAN GRENELL MUNICIPAL BOND**	6.2	Muni. Ntl. Interm.
MGMT. ADJUSTABLE RATE	5.7	Ultrashort	MSOW PRIME INCOME TRUST**	7.6	Ultrashort (Gen.)
ON 1784 T/E MED.-TERM INCOME	6.1	Muni. Ntl. Interm.	NATIONS SHORT-TERM MUNI. INV. A**	4.2	Muni. Short
VESTMENT LIFECYCLE SHORT**	9.1	Short (Gen.)	NORTHEAST INVESTORS	10.4	High-Yield
WOS GROWTH & INCOME A**	16.2	Convertibles	ONE GROUP MUNICIPAL INCOME A**	5.6	Muni. Ntl. Interm.
RY TAX-FREE RES. LIMITED-TERM A	4.0	Muni. Short	PAYDEN & RYSEL GLOBAL FIXED-INCOME R	8.1	International
NIAL HIGH-YIELD MUNI. B**	6.1	Muni. Ntl. Long	PERMANENT PORTFOLIO VERSATILE BOND**	5.0	Short (Gen.)
RADO BONDSHARES**	7.9	Muni. S-S Interm.	PIMCO FOREIGN BOND INSTL.	10.0	International
MBIA HIGH-YIELD**	9.1	High-Yield	PIMCO HIGH-YIELD INSTL.	10.7	High-Yield
TAX-FREE HIGH INCOME B	5.3	Muni. Short	PIMCO LOW DURATION INSTL.	6.8	Short (Gen.)
NARE NATL. HIGH-YIELD MUNI. A**	6.9	Muni. Ntl. Interm.	PIMCO LOW DURATION II INSTL.	6.2	Short (Gen.)
US PA. INTERM. MUNI. BOND**	6.2	Muni. S-S Interm.	PIMCO SHORT-TERM INSTL.	6.3	Ultrashort (Gen.)
US SHORT-INTERM. MUNI. BOND**	4.1	Muni. Short	T. ROWE PRICE MARYLAND SHORT-TERM T/F**	4.1	Muni. Short
EE KENTUCKY TAX-FREE SHORT-MED.	4.2	Muni. Short	T. ROWE PRICE SPECTRUM INCOME	8.6	Multisector Bond
EE TENNESSEE TAX-FREE INCOME**	7.6	Muni. S-S Long	T. ROWE PRICE SUMMIT MUNICIPAL INCOME	7.0	Muni. Ntl. Long
VANCE PRIME RATE RESERVES	7.0	Ultrashort	T. ROWE PRICE SUMMIT MUNICIPAL INTERM.	6.1	Muni. Ntl. Interm.
RUST HIGH-YIELD BOND**	7.1	High-Yield	T. ROWE PRICE TAX-FREE HIGH-YIELD	6.4	Muni. Ntl. Long
GREEN FLORIDA HIGH-INCOME MUNI. A	7.1	Muni. S-S Long	T. ROWE PRICE TAX-FREE SHORT-INTERM.	4.5	Muni. Short
SIOR SHORT-TERM TAX-EXEMPT SECS.**	4.0	Muni. Short	SEI DAILY CORP. DAILY INCOME A**	5.7	Ultrashort
IATED SHORT-TERM MUNI. INST.	4.3	Muni. Short	SEI DAILY SHORT-DURATION GOVT. A**	5.9	Short Government
LIMITED DURATION**	6.1	Short Government	SEI TAX-EXEMPT PA. MUNI. BOND A**	5.3	Muni. S-S Interm.
U.S. SHORT-TERM FIXED-INCOME	5.1	Ultrashort	SIT MINNESOTA TAX-FREE INCOME	6.5	Muni. Short
WORLDWIDE FIXED-INCOME HEDGED	10.6	International	SIT TAX-FREE INCOME	6.7	Muni. Ntl. Interm.
ITY HIGH-INCOME	10.8	High-Yield	SIT U.S. GOVERNMENT SECURITIES	6.6	Short Government
ITY MORTGAGE SECURITIES INIT.	7.8	Interm. Govt.	SMITH BARNEY MUNI. LIMITED-TERM A	5.4	Muni. Ntl. Interm.
ITY SPARTAN SHORT-INTERMEDIATE MUNI.	4.4	Muni. Short	SMITH BREENEN SHORT DUR. U.S. GOV.**	5.5	Ultrashort
ILL STREET TAX-FREE SHORT-INTERM.**	3.9	Muni. Short	SSGA YIELD PLUS	5.3	Ultrashort
AMERICAN LIMITED-TERM INCOME A**	5.5	Short (Gen.)	STEIN ROE HIGH-YIELD MUNIS	6.4	Muni. Ntl. Long
EW INCOME	6.9	Intermediate (Gen.)	STI CLASSIC INVESTMENT GRADE T/E INV.**	6.5	Muni. Ntl. Interm.
CLIN CALIF. HIGH-YIELD MUNI. A	7.3	Muni. Calif. Long	STRONG ADVANTAGE	5.8	Ultrashort
CLIN CALIF. TAX-FREE INCOME A	6.3	Muni. Calif. Long	STRONG CORPORATE BOND	9.4	Intermediate (Gen.)
CLIN HIGH YIELD TAX-FREE INCOME A	6.9	Muni. Ntl. Long	STRONG HIGH-YIELD MUNI BOND	7.4	Muni. Ntl. Long
IR SHORT DURATION	5.8	Short (Gen.)	TAX-FREE FUND OF VERMONT	5.5	Muni. S-S Long
STEAD SHORT-TERM BOND	5.8	Short (Gen.)	U.S. GLOBAL INV. NEAR-TERM TAX-FREE	4.4	Muni. Short
IKIS & WILEY LOW DURATION	7.5	Short (Gen.)	UNITED MUNICIPAL HIGH-INCOME A	7.6	Muni. Ntl. Long
IKIS & WILEY SHORT-TERM INVMT.**	6.1	Ultrashort	USAA TAX-EXEMPT INTERMEDIATE-TERM	6.1	Muni. Ntl. Interm.
H FL. TAX-FREE SHORT**	4.3	Muni. Short	USAA TAX-EXEMPT SHORT-TERM	4.8	Muni. Short
TAX-EXEMPT**	5.6	Muni. S-S Interm.	VAN KAMPEN HIGH-YIELD MUNI. A	7.4	Muni. Ntl. Interm.
GO SELECT INCOME	8.4	Long (Gen.)	VAN KAMPEN PRIME-RATE INCOME	6.9	Ultrashort
I FLEXIBLE INCOME	8.7	Multisector	VANGUARD GNMA	7.4	Interm. Govt.
MI. MUNICIPAL BOND INVMT.**	4.3	Muni. Short	VANGUARD HIGH-YIELD CORP	8.7	High Yield
ETON GNMA INCOME	7.3	Interm. Govt.	VANGUARD INTERMEDIATE-TERM TAX-EXEMPT	5.6	Muni. Ntl. Interm.
ED-TERM N.Y. MUNICIPAL A	5.6	Muni. Short	VANGUARD LIMITED-TERM TAX-EXEMPT	4.6	Muni. Short
IS SAYLES SHORT-TERM BD. INSTL.**	6.1	Short-Term (Gen.)	VANGUARD SHORT-TERM CORPORATE	6.1	Short (Gen.)
ITAY HIGH-YIELD CORPORATE BOND B	9.7	High-Yield	VANGUARD SHORT-TERM TAX-EXEMPT	3.9	Muni. Short
HALL SHORT-TERM INCOME	5.4	Short-Term (Gen.)	WARBURG PINCUS N.Y. INT. MUNI. **	4.9	Muni. Short
ILL LYNCH SENIOR FLOATING-RATE**	6.2	Ultrashort (Gen.)	WASATCH-HOISINGTON U.S. TREASURY**	10.1	Long Government

*1998 pretax returns, includes appreciation plus reinvestment of dividends and capital gains

**More fund data on Business Week Online

DATA: MORNINGSTAR INC

on \$9.95 and \$10.07. Last year, it was 6.8%, nearly two percentage points better than the average tax-money-market fund. "This is not a bad investment," says Jeffrey W. who runs a competitor fund, MPM Prime Income Trust. "But it's the next-best thing." Right now, investors on these ultrashort funds are in luck with those on many intermediate-term funds, which are exposed to interest-rate risk. But with ultra-

short funds, yield is about all you get.

With longer-term funds, there's an opportunity for a deft manager to earn some capital gains. One fund that plays that game well is Janus Flexible Income Fund. "We don't have any rules about where we can invest," says portfolio manager Ron Speaker, "so we can take advantage of people who do." For example, "split-rate bonds," bonds that are rated investment grade by one credit agency but junk by another, are often

cheap because they're off-limits to both high-quality and high-yield funds. But Speaker can buy them.

Some of our top-rated funds take diametrically opposed views. Van R. Hoisington, manager of A-rated Wasatch-Hoisington U.S. Treasury Fund, is sticking with a long-term U.S. Treasury portfolio that served him well in 1998 when the fund earned a 14.6% total return. "As long as you have a capacity glut worldwide, countries will

Mutual Fund Scoreboard

compete by driving down the value of their currencies," says Hoisington, who adds that he sees no end to the deflationary pressure. He expects the Federal Reserve to make further rate cuts.

Taking the other view is Robert L. Rodriguez, who runs the FPA New Income Fund. He believes that inflation bottomed out last year. "Even if energy and food prices are stable in 1999, the [consumer price index] will be over 2%," says Rodriguez. He has 30% of his fund in inflation-indexed bonds. That's a position he admits he took too soon. He missed 1998's government bond rally, and the fund earned just a 3.9% total return.

GO WITH MUNIS? William H. Gross, portfolio manager for several PIMCO Funds, doesn't expect rates to move dramatically either way this year. PIMCO, with \$155 billion in assets under management, is the nation's largest bond investor. "Rates should fluctuate around a fulcrum of 5%, going a little lower when the economy is weak and a little higher in periods of dollar weakness," says Gross. "This year, I expect most bond investors will just earn the coupon."

On that count, bond-fund investors might find the best opportunities in municipal bond funds. In last year's flight to quality, investors left munis for governments. But all year long, the supply of munis surged, with new issues hitting a record \$280 billion. So prices sank and yields jumped—and even now remain high. "Munis are as compelling today as they were last summer," says Ian A. MacKinnon, head of bond funds at the Vanguard Group. "But the situation is not going to last." The current yield on the top-rated Vanguard Intermediate-Term Tax-Exempt Fund is 4%, the equivalent of 5.8% for an investor in the 31% tax bracket.

Alluring as yields can be, it's total return that counts. In a world of gyrating stock markets and recurrent crises in foreign economies, investors may dump bonds that continue to pay high yields in their search for safety. BUSINESS WEEK's ratings focus entirely on total return. You'll find the fund ratings—plus a whole lot more—in the Scoreboard that starts on page 93.

By Jeffrey M. Laderman
in New York

BusinessWeek **ONLINE**

A greatly expanded, interactive version of this Scoreboard is available at www.businessweek.com. It features nearly 4,500 equity and bond funds, more data for each than in the magazine, and several ways of searching for them.

The Best in Their Group

These funds earned A's for risk-adjusted returns when compared with their peers.

FUND	AVERAGE ANNUAL TOTAL RETURN*	FUND	AVERAGE ANNUAL TOTAL RETURN*
ULTRASHORT		MUNICIPAL SHORT	
MSDW PRIME INCOME TRUST**	7.6%	DAVIS TAX-FREE HIGH-INCOME B	5.8
SHORT (GENERAL)		SIT MINN. TAX-FREE INCOME	6.1
BT INVESTMENT LIFECYCLE SHORT**	9.1	MUNICIPAL NATIONAL INTERM.	
FIRST AMERICAN LTD.-TERM INCOME A**	5.5	DELAWARE NATL. HIGH-YIELD MUNI. A	6.1
HARBOR SHORT DURATION	5.8	MORGAN GRENFELL MUNI. BOND	6.1
HOTCHKIS & WILEY LOW DURATION	7.5	T. ROWE PRICE SUMMIT MUNI. INTERM.	6.1
PIMCO LOW DURATION INSTL.	6.8	SIT TAX-FREE INCOME	6.1
INTERMEDIATE (GENERAL)		VAN KAMPEN HIGH-YIELD MUNI. A	7.1
BABSON BOND S	6.1	MUNICIPAL NATIONAL LONG	
DREYFUS BASIC GNMA	6.7	COLONIAL HIGH-YIELD MUNI B	6.1
FPA NEW INCOME	6.9	FRANKLIN FED. TAX-FREE INCOME A	6.1
FREMONT BOND	8.0	FRANKLIN HIGH-YIELD T/F INCOME A	6.1
HARBOR BOND	7.6	T. ROWE PRICE SUMMIT MUNI. INCOME	7.1
MONETTA INTERMEDIATE BOND**	7.4	T. ROWE PRICE TAX-FREE HIGH-YIELD	6.1
MORGAN GRENFELL FIXED-INCOME	7.4	STEIN ROE HIGH-YIELD MUNIS	6.1
PIMCO TOTAL RETURN III INSTL.	8.0	STRONG HIGH-YIELD MUNI. BOND	7.1
PIMCO TOTAL RETURN INSTL.	7.9	UNITED MUNICIPAL HIGH-INCOME A	7.1
STRONG CORPORATE BOND	9.4	MUNICIPAL CALIF. INTERM.	
WARBURG PINCUS FIXED-INCOME COMM.**	7.1	MONTGOMERY CALIF. T/F INTRM. BOND R**	5.1
LONG (GENERAL)		MUNICIPAL CALIF. LONG	
EQUITRUST HIGH-GRADE BOND**	6.4	AMERICAN CENT.-BENHAM CA. MUNI. H-Y**	6.1
INVESCO SELECT INCOME	8.4	FRANKLIN CALIF. HIGH-YIELD MUNI. A	7.1
SHORT GOVERNMENT		FRANKLIN CALIF. TAX-FREE INCOME A	6.1
FFTW LIMITED DURATION**	6.1	MUNICIPAL NEW YORK INTERM.	
MONTGOMERY SHORT-DUR. GOVT. BOND R	6.4	BERNSTEIN N.Y. MUNICIPAL	5.1
SEI DAILY SHORT-DUR. GOVT. A**	5.9	MUNICIPAL NEW YORK LONG	
SIT U.S. GOVERNMENT SECS.	6.6	FRANKLIN N.Y. TAX-FREE INCOME A	5.1
INTERMEDIATE GOVERNMENT		T. ROWE PRICE N.Y. TAX-FREE	6.1
ACCESSOR MORTGAGE SECURITIES	6.9	MUNICIPAL SINGLE-STATE INTER	
AMERICAN CENT.-BENHAM GNMA INV.	6.7	COLORADO BONDSHARES**	7.1
FEDERATED INCOME INSTL.	6.7	DELAWARE-VOYAGEUR T/F MINN. INT. A	4.1
FIDELITY MORTGAGE SECURITIES INIT.	7.8	DREYFUS PA. INTERM. MUNI. BOND**	6.1
FIDELITY SPARTAN GINNIE MAE	7.0	IDaho TAX-EXEMPT**	5.1
LEXINGTON GNMA INCOME	7.3	SEI TAX-EXEMPT PA. MUNI. BOND A**	5.1
SMITH BREEDEN INTERM. DUR. GOV.**	6.9	THORNBURG N.M. INTERM. MUNI. A	4.1
USAA GNMA	7.3	MUNICIPAL SINGLE-STATE LONG	
VANGUARD GNMA	7.4	DUPREE TENNESSEE TAX-FREE INCOME	7.1
LONG GOVERNMENT		EVERGREEN FLA. HIGH-INCOME MUNI. A	7.1
WASATCH-HOISINGTON U.S. TREASURY**	10.1	FIDELITY SPARTAN PA. MUNI. INCOME	5.1
CONVERTIBLES		FRANKLIN FLA. TAX-FREE INCOME A	5.1
CALAMOS GROWTH & INCOME A**	16.2	FRANKLIN GA. TAX-FREE INCOME A	5.1
HIGH-YIELD		FRANKLIN IND. TAX-FREE INCOME**	5.1
COLUMBIA HIGH-YIELD**	9.1	FRANKLIN LA. TAX-FREE INCOME A**	5.1
FIDELITY HIGH-INCOME	10.8	FRANKLIN MASS. INS. T/F INCOME A	5.1
MAINSTAY HIGH-YIELD CORP. BOND B	9.7	FRANKLIN MICH. INS. T/F INCOME A	5.1
PIMCO HIGH-YIELD INSTL.	10.7	FRANKLIN PA. TAX-FREE INCOME A	5.1
INTERNATIONAL		FRANKLIN PUERTO RICO TAX-FREE INC. A	5.1
FFTW WORLDWIDE FIXED-INCOME HEDGED	10.6	FRANKLIN TEXAS TAX-FREE INCOME A**	5.1
GOLDMAN SACHS GLOBAL A	8.1	LEGG MASON MD. T/F INCOME PRIM.	5.1
PAYDEN & RYSEL GLOBAL FIXED-INCOME R	8.1	MONTANA TAX-FREE**	5.1
PIMCO FOREIGN BOND INSTL.	10.0	T. ROWE PRICE MARYLAND TAX-FREE**	5.1
MULTISECTOR		T. ROWE PRICE VIRGINIA TAX-FREE**	5.1
T. ROWE PRICE SPECTRUM INCOME	8.6	TAX-FREE FUND OF VERMONT**	5.1
		USAA VIRGINIA BOND**	5.1
		VANGUARD PA. INS. LONG TAX-EXEMPT	9.1

*1994-1998 pretax returns, includes appreciation plus reinvestment of dividends and capital gains

** More fund data on Business Week Online

DATA: MORNINGSTAR INC

Bond Funds

MUTUAL FUND SCOREBOARD

Use the Tables

5 WEEK RATING

Measure risk-adjusted performance. This shows how a fund performed relative to its peers and relative to the risk it took. Risk-adjusted performance is determined by comparing a fund's risk-of-loss (see below) from its historical return. Performance numbers are based on the time period between Jan. 1, 1994, and Dec. 31, 1998. For BW ratings, funds are ranked into taxable and tax-exempt funds. Funds are also ranked within their categories based on a normal distribution within the group and awarded as

SUPERIOR
VERY GOOD
ABOVE AVERAGE
AVERAGE
BELOW AVERAGE
POOR
VERY POOR

RISK

The risk-of-loss factor is the potential for losing money in a fund, calculated as follows: The monthly Treasury bill return is subtracted from the fund's total return for each of the 60 months in the rating period. When a fund has underperformed Treasury bills, the result is negative. The sum of these negative numbers is then divided by the number of months in the period. The result is a negative number, and the greater its magnitude, the higher the risk of loss.

PERFORMANCE COMPARISON

The tables provide performance data over three time periods. Here are equivalent total returns for the Lehman Brothers bond indexes during those periods:

	GOVT/CORP.	MUNI.
1998	9.5%	6.5%
3-year average (1996-98)	7.3%	6.7%
5-year average (1994-98)	7.3%	6.2%

FUND CATEGORIES

General bond funds are classified long-term (CL), intermediate-term (CI), short-term (CS), and ultra-short (UB); government, long (GL), intermediate (GI), and short (GS);

municipal, national long (ML), national interm. (MI), single-state long (SL), single-state interm. (SI), Calif. long (MC), Calif. interm. (MF), New York long (MY), New York interm. (MN), and short-term (MS); specialized funds, convertible (CV), high-yield (HY), international (IB), emerging markets (EB), and multisector (MU).

SALES CHARGE

The cost of buying a fund, commonly called the "load." Many funds take loads out of initial investments, and for ratings purposes, performance is reduced by these charges. Loads on withdrawals can take two forms. Deferred charges decrease over time. Redemption fees are imposed whenever investors sell shares. Funds with none of these charges are called "no-load."

EXPENSE RATIO

Fund expenses for 1998 as a percentage of average net assets. The measures show how much shareholders pay for fund management. Footnotes indicate 12(b)-1 plans, which allocate shareholder money for marketing costs. The average expense ratio

is 1.01% for taxable funds, 0.85% for tax-free funds.

TOTAL RETURN

A fund's net gain to investors, including reinvestment of dividends and capital gains at month-end prices.

YIELD

Income distributions during 1998 expressed as a percent of net asset value, adjusted for capital gains.

MATURITY

The average maturity of the securities in a fund's portfolio, weighted by market value.

HISTORY

A fund's relative performance during the five 12-month periods from Jan. 1, 1994, to Dec. 31, 1998. The numbers designate which quartile the fund was in during the period: 1 for the top quartile; 2 for the second quartile; 3 for the third quartile; 4 for the bottom quartile. No number indicates no data for that period.

TELEPHONE NUMBERS

See index on page 110.

	RATING (COMPARES RISK-ADJUSTED PERFORMANCE OF EACH FUND AGAINST ALL FUNDS)	CATEGORY (RATING COMPARES FUND WITHIN CATEGORY)	RATING	SIZE ASSETS \$ MIL.	% CHG. 1997-98	FEES SALES CHARGE (%)	EXPENSE RATIO (%)	PERFORMANCE TOTAL RETURN (%)			PORTFOLIO		HISTORY RESULTS VS. ALL FUNDS
								1 YR.	3 YR.	5 YR.	YIELD (%)	MATURITY (YEARS)	
BOND FUND FOR INCOME		CI		196.7	143	No load	0.19	6.4	NA	NA	6.7	8.5	2
GNMA & U.S. TREASURY	B+	GS	C	4535.2	0	No load	0.61	6.8	6.5	6.0	6.5	6.9	14232
HIGH-QUALITY SHORT TERM BOND (a)	C-	CS	F	440.1	-2	No load	0.90	5.5	5.4	5.6	5.7	2.9	22433
HYBRID FIXED-INCOME COMM. (b)	C	CI	C	171.0	20	No load	0.71	7.1	6.6	6.5	5.6	13.2	22321
HYBRID MORTGAGE SECURITIES	B+	GI	A	128.8	17	No load	0.84	6.4	7.0	6.9	5.5	9.1	13112
GLOBAL CAPITAL & RETIREMENT INCOME	C	CL	B	220.7	10	No load	0.82†	6.3	7.6	7.7	6.9	15.5	31212
EMERGING MARKETS DEBT B (c)	F	EB		116.7	-47	5.00**	2.18†	-29.3	2.2	0.5	13.4	11.7	41114
DATING RATE		UB		287.1	33	3.00**	1.50	5.2	NA	NA	7.0	NA	3
GLOBAL GOVT. INCOME A (d)	F	IB	D	119.4	-17	4.75	1.34†	12.1	7.1	4.1	5.6	14.4	43141
HIGH-YIELD B	D	HY	C-	1813.0	10	5.00**	1.65†	-5.9	6.4	6.4	9.6	7.5	13112
GLOBAL COME A	C-	MU	C	398.1	17	4.75	0.94†	4.9	8.4	7.7	6.6	14.4	41114
INTERMEDIATE GOVT. A	C	GI	C	244.4	47	4.75	1.00†	8.2	6.5	6.3	6.6	7.4	23421
GLOBAL D. MATURITY TREASURY RET.	B+	GS	B+	408.1	6	1.00	0.54†	6.1	5.6	5.4	5.0	1.5	14142
STRATEGIC INCOME B (e)	F	IB	F	183.5	-33	5.00**	2.00†	-2.5	7.6	2.7	6.9	14.7	43144
HYBRID BOND CORP. BOND B	F	CL	F	678.4	18	3.00**	1.75†	-0.8	6.6	6.0	8.1	16.4	41114
HYBRID BOND U.S. GOVT. B	D	GI	D	425.3	-2	3.00**	1.76†	7.8	5.2	5.0	6.3	NA	33431
HYBRID GLOBAL DOLLAR GOVT. B		EB		114.6	22	3.00**	2.26†	-22.7	5.2	NA	13.6	16.4	11244
HYBRID HIGH YIELD B		HY		371.1	361	4.00**	2.13†	-2.3	NA	NA	9.6	6.7	4
HYBRID MORTGAGE SECURITIES INC. A	C-	GS	F	462.3	24	4.25	1.41†	5.8	6.3	5.4	6.5	NA	33223
HYBRID NORTH AMER. GOVT. INCOME B	F	IB	F	1302.2	-7	3.00**	2.09†	5.7	14.4	6.1	11.8	8.2	41116
CAN CENT.-BENHAM BOND INV.	C	CI	C-	142.4	10	No load	0.80	6.6	5.9	6.4	5.9	10.6	21422
CAN CENT.-BENHAM GNMA INV.	B+	GI	A	1377.1	12	No load	0.58	6.4	6.8	6.7	6.1	NA	13122
CAN CENT.-BENHAM INTERM. TREAS. INV. B	B	GI	B+	444.3	23	No load	0.51	10.3	7.5	6.7	6.4	6.9	14231
CAN CENT.-BENHAM INTL. BOND	D	IB	C	150.4	-9	No load	0.84	17.9	5.7	8.3	1.4	NA	11141
CAN CENT.-BENHAM L/T TREAS. INV.	D	GL	C-	163.0	26	No load	0.54	12.8	8.5	8.4	5.4	NA	41411

† redemption fee. ** Includes deferred sales charge. † 12(b)-1 plan in effect. ‡ Not currently accepting new accounts. NA = Not available. NM = Not meaningful. Formerly AARP High-Quality Bond. (b) Formerly Rembrandt Fixed-Income Comm. (c) Formerly GT Global High-Income B. (d) Formerly GT Global Government Income A. (e) Formerly Strategic Income B.

DATA: MORNINGSTAR, INC., CHICAGO, IL.

MUTUAL FUND SCOREBOARD

Bond Fu

FUND	RATING (COMPARES RISK-ADJUSTED PERFORMANCE OF EACH FUND AGAINST ALL FUNDS)	CATEGORY (RATING COMPARES FUND WITHIN CATEGORY)	RATING	SIZE ASSETS \$ MIL.	% CHG 1997-98	FEES SALES CHARGE (%)	EXPENSE RATIO (%)	PERFORMANCE TOTAL RETURN (%)			PORTFOLIO		HI
								1 YR.	3 YR.	5 YR.	YIELD (%)	MATURITY (YEARS)	
AMERICAN CENT.-BENHAM S/T GOVT. INV.	B+	GS	B	824.1	62	No load	0.59	6.1	5.4	5.2	5.3	NA	12
AMERICAN CENT.-BENHAM TARGET MAT. 2000	C-	GI	C-	221.3	-9	No load	0.59	7.4	5.3	5.5	6.3	NA	21
AMERICAN CENT.-BENHAM TARGET MAT. 2005	D	GI	C-	527.4	75	No load	0.59	12.9	7.2	8.1	4.7	NA	41
AMERICAN CENT.-BENHAM TARGET MAT. 2010	F	GI	D	246.1	56	No load	0.59	15.1	8.8	10.0	4.8	NA	41
AMERICAN CENT.-BENHAM TARGET MAT. 2015	F	GI	D	178.4	33	No load	0.59	14.7	9.7	11.6	4.5	NA	41
AMERICAN CENT.-BENHAM TARGET MAT. 2020	F	GI	F	423.7	-29	No load	0.59	16.8	11.1	12.7	6.1	NA	41
AMERICAN CENT.-BENHAM TARGET MAT. 2025		GI		303.4	57	No load	0.59	21.9	NA	NA	4.3	NA	
AMERICAN HIGH-INCOME	C	HY	C	2573	17	4.75	0.81†	1.6	9.1	8.2	9.0	7.3	31
AM SOUTH BOND PREMIER		CI		339.4	11	No load	NA	9.4	NA	NA	5.6	7.0	
ARMADA BOND INSTITUTIONAL		CS		779.0	726	4.00	0.83†	8.5	6.6	NA	5.4	8.2	5
ARMADA INTERM. BOND INSTITUTIONAL	C	CS	D	311.2	109	No load	0.70†	7.9	6.0	5.6	5.3	5.2	23
ASSET MGMT. ADJUSTABLE RATE	A	UB	C	912.3	20	No load	0.50†	5.2	5.9	5.7	5.7	3.1	12
ASSET MGMT. SHORT U.S. GOVT. SECS.	B+	GS	B	121.2	15	No load	0.49†	6.7	5.5	5.6	5.8	2.4	12
ATLAS U.S. GOVT. & MORTGAGE A	B	GI	B	210.3	4	No load	1.03†	6.1	6.3	6.0	6.2	NA	23
BABSON BOND L	C	CI	B	128.0	-3	No load	0.97	7.4	6.6	6.3	5.9	8.0	23
BERNSTEIN GOVT. SHORT DURATION	B+	GS	B	145.0	0	No load	0.69	5.6	5.1	5.1	4.9	NA	12
BERNSTEIN INTERM. DURATION	B	CI	B	2532.1	19	No load	0.62	6.6	5.9	6.3	5.4	7.6	22
BERNSTEIN SHORT DURATION PLUS	B+	CS	B+	604.0	1	No load	0.64	5.9	5.4	5.3	5.2	1.9	12
WILLIAM BLAIR INCOME	B+	CS	C	188.1	17	No load	0.71	7.1	6.0	6.2	6.1	4.0	13
BOND FUND OF AMERICA	C	CI	C	9541.5	17	4.75	0.68†	5.2	7.0	6.6	6.9	9.2	31
BOSTON 1784 INCOME		CI		370.5	-2	No load	0.80†	7.4	5.9	NA	5.4	8.6	7
BOSTON 1784 SHORT-TERM INCOME		CS		185.4	-4	No load	0.64†	6.3	5.6	NA	5.4	2.6	7
BOSTON 1784 U.S. GOVT. MEDIUM-TERM	C	CI	C	277.0	15	No load	0.80†	8.0	6.0	5.8	5.3	7.2	23
BRINSON GLOBAL BOND I	B	IB	B+	119.5	113	No load	0.90	12.0	7.6	7.6	4.6	11.3	21
CAPITAL WORLD BOND	C-	IB	C	625.7	-12	4.75	1.06†	10.1	5.3	6.9	4.9	9.4	11
CHICAGO TRUST BOND	B	CI	B+	157.6	20	No load	0.80†	7.7	6.8	6.8	5.9	7.8	22
COLONIAL FEDERAL SECURITIES A	D	GI	D	803.8	-7	4.75	1.14†	9.1	6.6	6.6	5.9	11.4	31
COLONIAL HIGH-YIELD SECURITIES B	B	HY	B	573.0	12	5.00**	1.95†	1.2	8.4	8.0	8.4	8.4	12
COLONIAL INCOME A	C-	CI	C-	119.0	-1	4.75	1.11†	8.1	6.8	7.0	6.9	9.3	21
COLONIAL INTERM. U.S. GOVT. A	C	GI	C	630.0	-10	4.75	1.12†	8.2	6.4	6.3	5.7	8.2	11
COLONIAL STRATEGIC INCOME B	C	MU	C	919.2	10	5.00**	1.93†	4.4	7.2	7.0	7.3	9.8	21
COLUMBIA FIXED-INCOME SECURITIES	B	CI	B	426.0	12	No load	0.66	7.4	6.8	6.9	6.1	5.9	22
CONCERT INVESTMENT GOVERNMENT I (f)	D	GI	D	213.1	NM	6.75	0.84	6.3	5.8	5.6	6.2	NA	31
DAVIS CONVERTIBLE SECURITIES A	B	CV	B+	133.6	49	4.75	1.07†	-1.8	17.8	14.1	3.2	NA	31
DELAWARE DELCHESTER A	D	HY	C-	924.5	-10	4.75	1.06†	-1.9	7.8	6.4	10.5	7.7	23
DELAWARE LIMITED-TERM GOVT. A	C	GS	C-	317.4	-11	2.75	0.98†	7.4	5.4	4.5	6.2	2.8	11
DELAWARE U.S. GOVT. A	D	CI	F	138.4	-4	4.75	1.20†	7.1	6.0	5.0	6.5	11.1	31
DODGE & COX INCOME	B	CI	B+	953.9	35	No load	0.49	8.1	7.2	7.5	5.9	9.7	21
DREYFUS A BONDS PLUS	D	CI	F	596.1	-6	No load	0.95	2.7	4.9	5.4	6.0	14.3	31
DREYFUS DISCIPLINED INTERM. BOND RET.		CI		178.8	38	No load	0.55	8.5	6.7	NA	5.9	8.1	
DREYFUS GNMA	B	CI	B	1107.1	-8	No load	0.96†	4.2	5.8	5.8	6.3	20.3	21
DREYFUS HIGH-YIELD SECURITIES		HY		141.0	1	1.00*	0.71	-15.8	NA	NA	15.3	6.5	
DREYFUS PREMIER LTD.-TERM HIGH-INC. B		HY		550.8	180	4.00**	1.45†	-0.6	NA	NA	9.5	NA	
DREYFUS SHORT-INTERM. GOVT.	B+	GS	C	483.6	1	No load	0.74	6.5	5.5	5.6	6.9	NA	12
DREYFUS SHORT-TERM HIGH-YIELD		HY		189.6	22	No load	1.09	-0.8	NA	NA	10.4	NA	
DREYFUS SHORT-TERM INCOME	B+	CS	B	345.8	17	No load	0.87	4.3	6.2	5.9	6.8	NA	12
DREYFUS STRATEGIC INCOME	C	MU	C	285.1	3	No load	1.03	4.3	7.3	7.0	7.0	15.6	31
DREYFUS U.S. TREASURY INTERM. TERM (g)	C	GI	C	181.0	-4	No load	0.80	7.6	6.1	5.8	6.1	12.0	21
DREYFUS U.S. TREASURY LONG-TERM (h)	D	GL	C-	142.1	6	No load	0.80	10.8	7.7	7.2	5.0	20.6	41
DREYFUS U.S. TREASURY SHORT-TERM (i)	B+	GS	C	185.3	-5	No load	0.70	6.1	5.4	5.4	5.9	2.7	11
EATON VANCE GOVT. OBLIGATIONS A (j)	C	GS	D	251.9	-9	4.75	1.24†	5.6	5.8	5.7	7.7	4.0	12
EATON VANCE HIGH-INCOME B (k)	B	HY	B	647.1	-2	5.00**	1.73†	1.8	10.1	8.4	9.0	7.9	12
EATON VANCE INCOME OF BOSTON	B	HY	B	247.9	19	4.75	1.04†	2.7	10.8	9.1	9.5	7.9	12
EATON VANCE PRIME RATE RESERVES	A	UB	B+	2596.2	19	3.00**	1.31	6.9	6.9	7.0	6.8	NA	12
EATON VANCE STRATEGIC INCOME B	C-	MU	C-	146.5	10	5.00**	2.08†	1.2	9.1	7.1	7.7	NA	31
EV CLASSIC SENIOR FLOATING RATE		UB		2979.9	23	1.00**	1.46	6.8	6.8	NA	6.7	NA	
EVERGREEN INTERM.-TERM BOND A	C	CI	C	119.1	NM	3.25	1.11†	5.9	6.4	6.0	5.9	7.0	21
EVERGREEN STRATEGIC INCOME A	F	MU	D	165.7	168	4.75	1.26†	3.5	7.7	4.6	7.2	15.4	41
EVERGREEN U.S. GOVERNMENT B	C	GI	C	130.2	-8	5.00**	1.73†	7.4	5.8	5.7	5.1	8.6	21
EXCELSIOR INT.-TERM MGD. INCOME	C	CI	B	120.5	32	No load	0.61	8.5	6.3	6.6	5.3	10.4	21
EXCELSIOR MANAGED INCOME	C-	CL	C	218.1	10	No load	0.90	8.6	6.2	6.8	5.0	15.9	31
EXECUTIVE INVESTORS HIGH-YIELD	B	HY	C	218.5	0	4.75	1.22†	0.8	8.4	8.2	9.1	7.9	21
FEDERATED ADJ. RATE U.S. GOVT. F	B+	GS	C	142.9	-23	1.00**	1.10†	3.6	5.1	4.6	5.2	NA	12
FEDERATED BOND F	B	CI	B	411.7	17	2.00**	1.08	5.6	7.3	7.5	7.0	10.8	21
FEDERATED FUND FOR U.S. GOVT. A	C	GI	B	1073.5	-8	4.50	0.94	6.3	6.3	6.2	6.1	NA	12
FEDERATED GOVT. INCOME SECURITIES F	B	GI	B	1261.4	-15	2.00**	0.96	7.6	7.0	6.7	6.0	NA	12
FEDERATED HIGH-INCOME BOND B		HY		1130.8	32	5.50**	1.97†	1.3	8.7	NA	8.2	5.8	
FEDERATED HIGH-YIELD	B+	HY	B	1099.8	-2	No load	0.88	1.1	9.1	8.5	9.4	6.6	12
FEDERATED INCOME INST.	B+	GI	A	697.3	-8	No load	0.58	6.6	6.7	6.7	6.0	NA	12
FEDERATED INTERM. INCOME INST.	B	CI	B+	204.4	34	No load	0.55	7.8	6.6	7.3	5.9	NA	12

*Includes redemption fee. **Includes deferred sales charge. †12(b)-1 plan in effect. ‡Not currently accepting new accounts or deposits. NA=Not available. NM=Not meaningful.
 (f) Formerly Common Sense Government. (g) Formerly Dreyfus 100% U.S. Treasury Intermediate-Term. (h) Formerly Dreyfus 100% U.S. Treasury Long-Term. (i) Formerly Dreyfus U.S. Treasury Short-Term. (j) Formerly EV Traditional Government Obligations. (k) Formerly EV Marathon High-Income.

DATA: MORNINGSTAR, INC., CHARG

UAL FUND SCOREBOARD

Bond Funds

	RATING (COMPARES RISK-ADJUSTED PERFORMANCE OF EACH FUND AGAINST ALL FUNDS)	CATEGORY (RATING COMPARES FUND WITHIN CATEGORY)	RATING	SIZE ASSETS \$MIL.	% CHG. 1997-98	FEES SALES CHARGE (%)	EXPENSE RATIO (%)	PERFORMANCE TOTAL RETURN (%)			PORTFOLIO YIELD (%)		HISTORY RESULTS VS. ALL FUNDS	
								1 YR.	3 YR.	5 YR.		MATURITY (YEARS)		
ED INTL. INCOME A	F	IB	C-	139.5	-19	4.50	1.30 †	14.5	6.4	6.2	3.7	7.3	200000	
ED SHORT-TERM INCOME INST.	B+	CS	B	187.2	-6	No load	0.56	5.7	5.9	5.5	6.0	NA	100000	
ED STRATEGIC INCOME B		MU		705.7	118	5.50 **	1.85 †	1.6	6.9	NA	8.2	5.3	100	
ED U.S. GOVT.: 1-3 INST.	B+	GS	B+	595.7	-5	No load	0.54	6.4	5.7	5.4	4.9	1.7	100000	
ED U.S. GOVT.: 2-5 INST.	B	GS	C	722.7	3	No load	0.54	8.1	6.3	6.0	5.1	3.5	100000	
EL FIXED-INCOME		IB		344.5	419	No load	0.60	18.4	NA	NA	8.2	NA	100	
EL SHORT-TERM F/I	A	UB	C	837.4	73	No load	0.40	5.6	5.4	5.1	5.6	NA	100000	
ELRDWIDE F/I HEDGED	A	IB	A	181.0	135	No load	0.45	11.5	11.4	10.6	5.9	NA	100000	
ADV. GOVT. INVESTMENT T	C-	GI	C-	201.0	35	3.50	1.00 †	8.3	6.3	6.4	5.5	8.7	200000	
ADV. HIGH-YIELD T	C	HY	C	2550.4	12	3.50	1.07 †	-0.4	9.1	8.8	9.4	8.4	100000	
ADV. INTERMEDIATE BOND T	C	CS	D	287.7	3	2.75	0.98 †	7.0	5.8	5.3	5.3	5.9	100000	
ADV. SHORT FIXED-INCOME T	C	CS	C-	313.1	-13	1.50	0.89 †	5.9	5.5	4.5	5.7	NA	200000	
ADV. STRATEGIC INCOME T		MU		190.2	65	3.50	1.19 †	2.3	8.1	NA	6.8	NA	10000	
CAPITAL & INCOME	C	HY	C-	2195.6	5	1.50 *	0.82	4.8	10.2	8.3	9.9	6.9	200000	
CONVERTIBLE SECURITIES	C-	CV	C	1035.6	3	No load	0.73	16.3	15.3	12.4	3.2	NA	100000	
GINNIE MAE	B+	GI	B+	1093.5	27	No load	0.72	6.4	6.6	6.7	6.2	5.5	100000	
GOVERNMENT INCOME (I)	C-	GI	C	1583.2	36	No load	0.68	8.6	6.5	6.2	5.9	8.9	200000	
HIGH-INCOME (m)	A	HY	A	2861.9	17	1.00 *	0.80	3.3	11.0	10.8	8.6	8.4	100000	
INTERMEDIATE BOND	B	CS	C	3443.8	8	No load	0.65	7.3	6.2	5.8	6.1	5.1	100000	
INTERMEDIATE GOVT. (n)	B+	GS	B	760.0	0	No load	0.38	7.5	6.4	6.3	6.5	4.7	100000	
INVESTMENT GRADE BOND	C	CI	C	2191.1	33	No load	0.71	7.9	6.6	5.8	5.7	8.2	100000	
MORTGAGE SECURITIES INITIAL (o)	A	GI	A	453.9	-6	No load †	0.71	5.9	6.8	7.8	6.3	4.9	100000	
NEW MARKETS INCOME	F	EB		206.9	-44	1.00 *	1.08	-22.4	8.9	3.1	13.5	16.3	100000	
SHORT-INTERMEDIATE GOVT.	B+	GS	C	132.6	5	No load †	0.78	6.5	5.7	5.4	6.3	3.4	100000	
SHORT-TERM BOND	C	CS	C-	841.7	-4	No load	0.70	6.2	5.7	4.5	5.9	2.4	200000	
SPARTAN GINNIE MAE	B+	GI	A	641.9	8	No load †	0.38	6.8	6.9	7.0	6.4	5.5	100000	
SPARTAN GOVT. INCOME	C	GI	B	642.8	130	No load	0.60	9.0	6.9	6.8	5.8	8.9	200000	
SPARTAN INVESTMENT GRADE BOND	C	CI	C	1261.4	92	No load	0.38	8.8	7.0	6.6	6.0	7.8	100000	
SPARTAN SHORT-TERM BOND	B	CS	C-	302.9	7	No load †	0.38	6.6	6.1	4.6	6.2	2.4	200000	
U.S. BOND INDEX	B	CI	B+	1225.1	84	No load	0.31	8.9	7.2	7.2	6.3	7.9	100000	
AMERICAN ADJ. RATE MORT. A (p)	D	CS	F	121.4	-29	2.00	0.81 †	4.8	6.0	2.4	5.4	NA	100000	
AMERICAN FIXED-INCOME A	C	CI	C	171.1	NM	3.75	0.95 †	8.7	6.8	6.8	5.0	10.9	100000	
AMERICAN STRATEGIC INCOME		CI		113.9	67	No load	0.25	8.2	NA	NA	4.9	NA	100	
VESTORS FUND FOR INCOME A	B+	HY	B+	409.7	-9	6.25	1.27 †	4.1	9.7	9.5	9.9	7.3	100000	
VESTORS GOVERNMENT A	C-	GI	C-	166.1	-2	6.25	1.28 †	6.5	6.1	5.8	5.9	NA	200000	
VESTORS HIGH-YIELD A	B+	HY	B+	196.2	-6	6.25	1.36 †	3.6	9.5	9.2	9.4	7.4	100000	
VESTORS TOTAL RET. U.S. TREASURY A	D	GL	B	126.6	5	4.50	0.83 †	10.8	7.1	7.5	6.0	14.4	200000	
U.S. GOVT. SECURITIES E	C-	GI	C	282.0	-7	4.50 †	0.79	8.5	6.9	6.0	5.3	7.7	100000	
INCOME	A	CI	A	591.6	5	4.50	0.59	3.9	6.4	6.9	7.8	NA	100000	
U.S. ADJ. U.S. GOVT. SECURITIES	B	GS	C	304.4	-5	2.25	0.75 †	3.9	5.7	4.8	5.3	NA	100000	
CONVERTIBLE SECURITIES A	D	CV	C-	170.2	-24	5.75	1.01 †	-7.0	9.2	9.7	5.2	NA	100000	
SHORT-INTERM. GOVT. A (q)	B	GS	C-	211.8	13	2.25	0.78 †	6.6	5.5	5.0	5.4	2.0	100000	
STRATEGIC INCOME		MU		197.6	94	4.25	0.25 †	4.1	10.2	NA	8.0	8.0	10000	
U.S. GOVT. SECURITIES A (r)	B	GI	B+	8901.4	-4	4.25	0.64 †	6.6	6.9	6.8	6.5	4.9	200000	
U.S. AGE HIGH INCOME A (s)	B	HY	B	3172.0	6	4.25	0.70 †	1.5	9.1	8.7	9.6	8.6	100000	
F BOND	B	CI	A	216.0	97	No load	0.61	9.5	8.1	8.0	6.3	8.0	200000	
U.S. TREASURY INDEX RET.	C	GI	B	190.6	55	No load	0.40	9.8	7.0	6.9	5.8	9.1	200000	
INVESTMENT SECURITIES B	D	CI	F	371.9	-24	5.00 **	1.63 †	8.3	6.3	4.3	5.8	9.7	100000	
TOTAL RETURN A	B+	IB	B+	159.2	-13	4.00	1.39 †	8.9	8.8	8.6	6.6	7.0	100000	
U.S. SACHS GLOBAL A	B+	IB	A	231.9	38	4.50	1.17 †	10.2	9.7	8.1	4.2	9.4	100000	
U.S. SACHS HIGH YIELD A		HY		464.2	34	4.50	0.95 †	3.0	NA	NA	8.1	NA	100	
U.S. GOVT. INCOME	B	GI	B	159.8	3	No load	0.90 †	7.3	6.4	6.3	5.7	5.0	200000	
U.S. LAINS INTERMEDIATE BOND		CI		134.9	1	3.00	0.79 †	9.1	NA	NA	5.6	7.9	100	
U.S. INVEST. QUALITY BOND A	C-	CI	D	142.0	44	4.50	0.75 †	7.9	6.3	5.9	5.2	10.6	100000	
U.S. K BOND A (t)	B	CI	B	1343.1	-1	4.50	1.08 †	7.5	7.0	7.3	6.5	13.6	200000	
U.S. K GOVERNMENT INCOME A		CI		624.6	78	4.50	1.13 †	8.8	6.8	NA	6.3	9.6	100000	
U.S. K HIGH-YIELD BOND B	F	HY	F	756.2	25	5.00 **	1.80 †	-11.9	5.9	5.0	11.1	7.6	100000	
U.S. K INTERM. MATURITY GOVT. A	B	GI	B+	171.9	1	3.00	1.09 †	8.6	6.9	6.4	6.1	7.7	100000	
U.S. K STRATEGIC INCOME B	B+	MU	B+	571.0	44	5.00 **	1.62 †	4.7	9.1	8.1	7.3	10.9	100000	
U.S. K BOND	B+	CI	A	494.4	29	No load	0.67	9.6	7.9	7.6	5.4	9.7	100000	
U.S. SHORT DURATION	A	CS	A	166.9	1	No load	0.36	6.4	6.3	5.8	5.6	4.4	100000	
U.S. LEAD SHORT-TERM BOND	A	CS	B+	143.7	32	No load	0.75	6.4	6.1	5.8	5.5	NA	100000	
U.S. FIS & WILEY LOW DURATION	A	CS	A	387.2	99	No load	0.58	5.7	6.6	7.5	6.5	3.1	100000	
U.S. D A	C	CI	C	2767.1	3	5.00	0.83	5.6	6.9	7.3	6.8	15.1	100000	
U.S. RA INCOME A	D	HY	D	2732.4	-6	5.00	0.89	-5.0	7.1	6.7	10.7	7.6	100000	
U.S. ERAL INCOME A	B	GS	C	1619.2	20	5.00	0.86	6.8	6.3	6.4	5.6	6.2	100000	
U.S. BAL BOND A	D	IB	C	734.6	-1	5.00	1.16	8.1	6.3	6.4	4.5	11.4	100000	
U.S. ECTIVE A	C-	CI	C-	1230.0	-2	5.00	0.86	8.2	6.3	6.8	6.0	16.8	100000	
U.S. EDIATE BOND FUND AMERICA	C	CS	D	1587.9	20	4.75	0.76 †	6.7	6.0	5.6	6.0	4.3	100000	
U.S. HIGH-YIELD	C	HY	C	829.0	41	No load	0.86 †	0.2	10.2	8.4	9.7	7.5	100000	

edemption fee. **Includes deferred sales charge. †12(b)-1 plan in effect. ‡Not currently accepting new accounts or deposits. NA=Not available. NM=Not meaningful

Fidelity Government Securities. (m) Formerly Fidelity Spartan High-Income. (n) Formerly Fidelity Spartan Limited Mat. Government. (o) Formerly Fidelity Advisor Mortgage Secs. Init. (p) Formerly Piper State Mortgage Secs. (q) Formerly Franklin Short-Interm. U.S. Government I. (r) Formerly Franklin U.S. Government Securities. I. (s) Formerly Franklin's AGE High Income I. (t) Formerly John Hancock Bond A.

DATA: MORNINGSTAR, INC., CHICAGO, IL

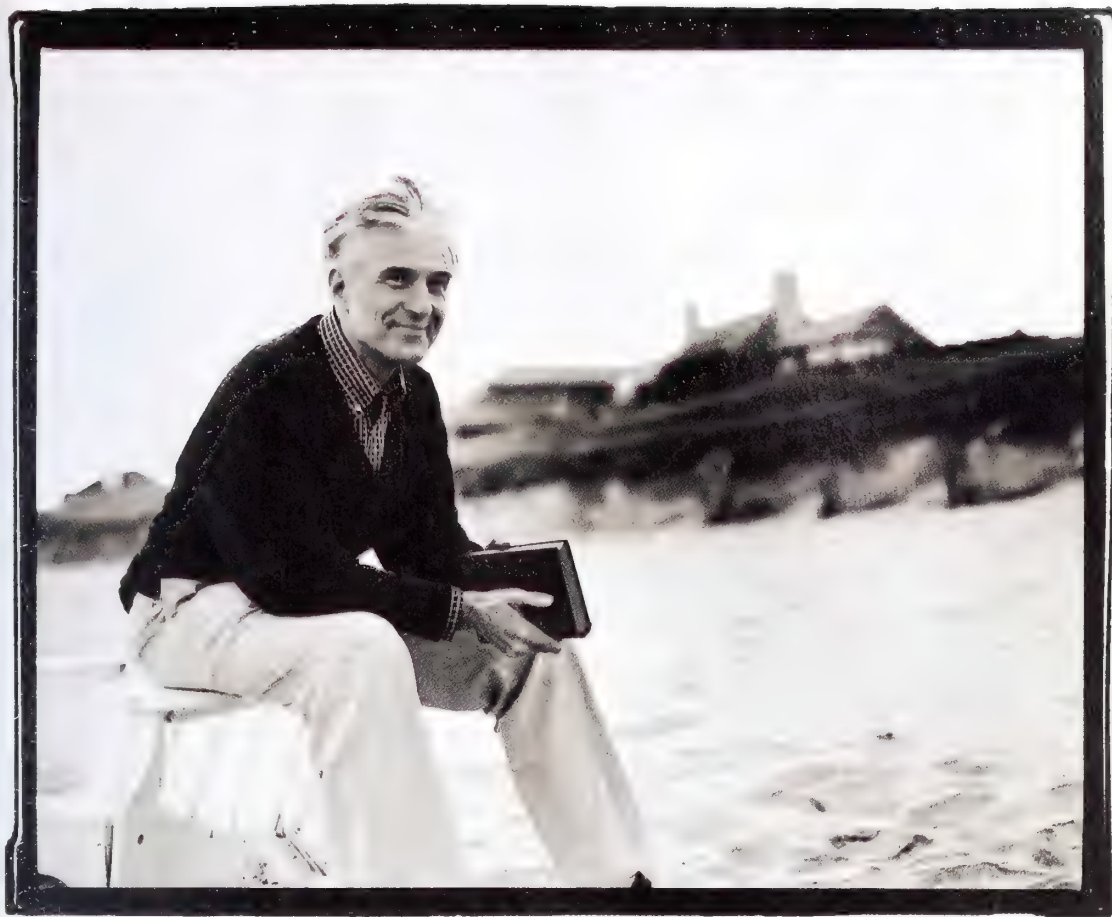
MUTUAL FUND SCOREBOARD

Bond Fund

FUND	RATING (COMPARES RISK-ADJUSTED PERFORMANCE OF EACH FUND AGAINST ALL FUNDS)	CATEGORY (RATING COMPARES FUND WITHIN CATEGORY)	RATING	SIZE ASSETS \$ MIL.	% CHG. 1997-98	FEES SALES CHARGE (%)	EXPENSE RATIO (%)	PERFORMANCE TOTAL RETURN (%)			PORTFOLIO	
								1 YR	3 YR	5 YR	YIELD (%)	MATURITY (YEARS)
INVESCO SELECT INCOME	A	CL	A	528.1	59	No load	1.06†	7.1	7.9	8.4	6.4	8.9
ISG GOVERNMENT INCOME A (u)	C	CI	C	284.7	9	2.00	0.80†	9.0	6.7	6.5	5.2	8.8
ISI TOTAL RETURN U.S. TREASURY	D	GL	B	300.0	2	4.45	0.83†	10.8	7.1	7.5	6.0	14.7
JANUS FLEXIBLE INCOME	A	MU	B+	1169.4	53	No load	0.86	8.2	8.8	8.7	6.6	10.1
JANUS HIGH-YIELD		HY		295.2	-17	No load	1.00	1.0	13.1	NA	8.5	7.7
JANUS SHORT-TERM BOND	B+	CS	B	131.9	91	No load	0.65	6.8	6.5	5.5	5.9	2.9
KEMPER DIVERSIFIED INCOME A	C-	MU	C	578.1	1	4.50	1.03	3.8	6.9	7.1	8.4	7.3
KEMPER HIGH-YIELD A	C	HY	C	3472.4	-5	4.50	0.89	1.3	8.6	8.1	9.9	7.9
KEMPER INCOME & CAP. PRES. A	C	CI	C	575.1	10	4.50	0.97	7.9	6.1	7.0	6.2	9.0
KEMPER U.S. GOVT. SECURITIES A	C	GI	B	3223.0	-8	4.50	0.78	7.0	6.3	6.6	6.6	5.4
KEMPER U.S. MORTGAGE A	C	GI	C	1784.4	1	4.50	0.96	7.0	6.2	6.4	6.5	7.9
KEYPREMIER INTERM. INCOME		CI		296.0	28	4.50	0.37	7.8	NA	NA	6.0	NA
LEGG MASON GLOBAL GOVT. PRIM.	C-	IB	C	120.4	-12	No load	1.86†	11.5	5.9	7.2	4.6	11.1
LEGG MASON HIGH-YIELD PRIM.		HY		431.7	13	No load	1.30†	-2.1	9.3	NA	9.0	6.6
LEGG MASON INVESTMENT GRADE PRIM.	C	CI	B	164.7	35	No load	1.00†	6.7	7.1	7.0	5.4	10.4
LEGG MASON U.S. GOVT. INTERM. PRIM.	B	CS	C	351.7	17	No load	1.00†	6.4	5.9	5.9	5.1	7.0
LEXINGTON GNMA INCOME	A	GI	A	273.1	73	No load	1.01	7.5	7.8	7.3	5.7	NA
LOOMIS SAYLES BOND INST.	B	CL	B+	1495.6	19	No load	0.75	4.7	9.2	10.5	7.6	19.1
LORD ABBETT BOND-DEBENTURE A	B	HY	B	2320.2	12	4.75	0.89†	4.8	9.5	8.2	8.0	NA
LORD ABBETT GLOBAL INCOME A	C	IB	B	119.5	-16	4.75	1.10†	11.3	7.1	7.0	6.3	NA
LORD ABBETT U.S. GOVT. SECURITIES A	D	GI	D	1688.9	-18	4.75	0.92†	7.9	6.4	5.9	6.4	NA
MAINSTAY CONVERTIBLE B	D	CV	C	657.7	-22	5.00**†	2.08†	0.7	7.5	8.5	3.5	NA
MAINSTAY GOVERNMENT B	C-	GI	C	590.6	-7	5.00**	1.65†	7.5	5.7	5.8	4.9	8.8
MAINSTAY HIGH-YIELD CORP. BOND B	A	HY	A	3309.0	-2	5.00**	1.62†	1.3	9.3	9.7	9.1	6.4
MARSHALL GOVERNMENT INCOME	B	CI	B	288.3	32	No load	0.86	6.5	6.0	6.2	6.1	6.3
MARSHALL INTERMEDIATE BOND	C	CS	D	593.3	7	No load	0.72	6.3	5.3	5.5	6.0	4.3
MARSHALL SHORT-TERM INCOME	A	CS	B+	130.1	-13	No load	0.49	4.9	5.4	5.4	6.3	2.1
MAS FIXED-INCOME INST.	B	CI	B+	4672.4	29	No load	0.48	6.8	7.9	7.2	5.9	8.9
MAS HIGH-YIELD INST.	B	HY	C	817.3	47	No load	0.50	3.2	11.3	9.7	8.8	8.0
MAS LIMITED DURATION INST.	B+	CS	B	247.3	29	No load	0.42	5.6	5.7	5.4	5.4	NA
MAS SPECIAL PURPOSE F I INST.	B	CI	B+	518.1	-1	No load	0.48	6.3	7.9	7.4	6.5	9.5
MCM INTERMEDIATE FIXED-INCOME		CI		136.2	23	No load	0.50	7.8	6.6	NA	5.5	4.4
MENTOR SHORT DURATION INCOME A		CS		114.2	160	1.00	0.86	6.1	5.3	NA	5.7	3.0
MERRILL LYNCH CORP. HIGH-INCOME B	D	HY	D	4161.1	-25	4.00**	1.27†	-3.7	5.9	6.1	9.9	7.7
MERRILL LYNCH CORP. INTERM.-TERM B	C	CI	C	188.3	26	1.00**	1.18†	6.8	5.6	5.8	5.7	NA
MERRILL LYNCH CORP. INVMT. GRADE B	C-	CI	F	756.4	32	4.00**	1.34†	7.3	5.4	5.6	5.4	NA
MERRILL LYNCH FEDERAL SECURITIES D	C	GI	C	854.3	-6	4.00	0.93†	6.3	6.4	6.0	5.7	5.5
MERRILL LYNCH WORLD INCOME B	F	MU	F	283.0	-56	4.00**	1.53†	-24.2	-4.1	-0.8	10.9	6.7
METROPOLITAN WEST LOW DURATION		CS		210.0	169	No load	0.58†	6.6	NA	NA	6.5	2.0
MFS BOND A	C-	CI	D	850.0	31	4.75	0.98†	4.5	6.2	6.8	6.6	12.3
MFS GLOBAL GOVERNMENTS A (v)	F	IB	D	136.7	-22	4.75	1.35†	4.1	3.3	3.5	6.9	11.0
MFS GOVERNMENT LTD. MATURITY B	C	GS	D	215.1	531	4.00**	1.63†	5.4	4.3	4.1	5.2	7.7
MFS GOVERNMENT MORTGAGE A	C	GI	C	628.9	1	4.75	0.97†	6.1	5.9	6.2	6.3	24.3
MFS GOVERNMENT SECURITIES A	C-	GI	C	324.8	12	4.75	0.94†	8.3	6.1	6.6	5.9	15.4
MFS HIGH-INCOME A	C	HY	C	742.1	3	4.75	1.01†	1.0	8.7	7.9	9.2	8.3
MFS LIMITED MATURITY A	B	CS	C	116.3	24	2.50	0.89†	5.2	5.1	5.4	6.3	NA
MFS STRATEGIC INCOME B	D	MU	C-	141.9	64	4.00**	1.44†	-1.4	5.8	5.8	9.2	9.9
MONTGOMERY SHORT DUR. GOVT. BOND R	A	GS	A	134.2	152	No load	0.28	7.4	6.5	6.4	5.5	NA
J.P. MORGAN BOND	B	CI	B	209.4	19	No load	0.68	7.4	6.5	6.7	6.0	12.1
MORGAN GRENELL FIXED-INCOME	B+	CI	A	1273.4	13	No load	0.55	7.9	7.3	7.4	6.0	8.3
MSDW CONVERTIBLE B (w)	D	CV	C-	264.9	-16	5.00**	1.84†	-4.9	9.0	8.7	5.1	NA
MSDW DIVERSIFIED INCOME B (x)	B	MU	B	1035.3	10	5.00**	1.40†	2.5	5.6	5.6	7.4	5.5
MSDW FEDERAL SECURITIES B (y)	C-	GI	C-	627.0	2	5.00**	1.52†	9.1	6.3	6.2	5.9	NA
MSDW HIGH-YIELD SECURITIES B (z)		HY		1877.5	17	5.00**	1.42†	-3.4	NA	NA	12.0	NA
MSDW INTERMEDIATE INCOME B (aa)	C	CI	C	144.9	-6	5.00**	1.63†	6.9	5.4	5.3	5.0	NA
MSDW SHORT-TERM BOND (bb)		CS		211.0	162	No load	0.37	7.0	6.0	NA	6.2	NA
MSDW SHORT-TERM U.S. TREASURY (cc)	B	GS	C	369.1	32	No load	0.82†	6.9	5.6	5.0	5.2	NA
MSDW U.S. GOVT. SECURITIES B (dd)	C	GI	B	4984.7	-8	5.00**	1.26†	7.3	6.3	6.2	5.9	5.0
NATIONWIDE BOND D (ee)	D	CL	D	137.4	9	4.50	0.72	8.3	6.3	6.5	5.8	7.6
NEUBERGER BERMAN LIMITED MATURITY	B+	CS	C	291.0	15	No load	0.70	4.7	5.3	5.2	6.0	2.4
NEW ENGLAND BOND INCOME A	C	CI	C	222.0	15	4.50	1.05†	8.0	7.8	7.7	6.4	8.1
NEW ENGLAND LTD. TERM U.S. GOVT. A	C	GS	D	194.1	-13	3.00	1.28†	6.5	5.3	5.2	5.7	NA
NEW ENGLAND STRATEGIC INCOME B		MU		134.2	-8	5.00**	1.93†	-2.4	6.4	NA	7.9	16.6
NICHOLAS INCOME	B+	HY	B+	239.4	-6	No load	0.50	0.5	8.5	8.2	9.3	7.1
NORTHEAST INVESTORS	A	HY	B+	2328.5	8	No load	0.61	-0.3	10.9	10.4	9.4	8.0
NORTHERN FIXED-INCOME		CI		251.3	53	No load	0.90	8.0	6.6	NA	5.1	12.0
NORTHERN INCOME EQUITY		CV		119.0	15	No load	1.00	9.2	16.5	NA	3.7	NA
NORTHERN U.S. GOVERNMENT		GS		261.2	22	No load	0.90	7.6	5.9	NA	4.8	4.3
NORTHSTAR HIGH TOTAL RET. B		HY		438.7	-21	5.00**†	2.12†	-8.6	5.2	NA	11.1	7.9
NORTHSTAR HIGH TOTAL RET. II B		HY		181.2	163	5.00**	1.95†	-3.6	NA	NA	9.6	8.8

*Includes redemption fee. **Includes deferred sales charge. †12(b)-1 plan in effect. ‡Not currently accepting new accounts or deposits. NA=Not available. NM=Not meaningful.
 (u) Formerly DG Govt. Inc. (v) Formerly MFS World Govts. A. (w) Formerly Dean Witter Convertible Secs. B. (x) Formerly Dean Witter Diversified Income B. (y) Formerly Dean Witter Federal Securities B. (z) Formerly Dean Witter High-Yield Securities B. (aa) Formerly Dean Witter Interm. Income Secs. B. (bb) Formerly Dean Witter Short-Term Bond. (cc) Formerly Dean Witter Short-Term U.S. Treasury. (dd) Formerly U.S. Government Secs. B. (ee) Formerly Nationwide Bond.

DATA MORNINGSTAR, INC., CH-A



*Go confidently in the direction of your dreams.
Live the life you've imagined.*

—Henry David Thoreau

What do you want out of life? What do you imagine it to be? Does it scare you? Or fill you with promise and anticipation? At American General, 50,000 dedicated women and men help you meet your financial needs with retirement services, life insurance, and consumer loans. And with 70 years' experience and \$100 billion in assets, we're helping over 12 million people live the life they've imagined.

Live the life you've imagined.™

**AMERICAN
GENERAL**
FINANCIAL GROUP

MUTUAL FUND SCOREBOARD

Bond Fur

FUND	RATING (COMPARES RISK-ADJUSTED PERFORMANCE OF EACH FUND AGAINST ALL FUNDS)	CATEGORY (RATING COMPARES FUND WITHIN CATEGORY)	RATING	SIZE ASSETS \$MIL	% CHG. 1997-98	FEES		PERFORMANCE			PORTFOLIO		HISTO RESU ALL
						SALES CHARGE (%)	EXPENSE RATIO (%)	TOTAL RETURN (%)			YIELD (%)	MATURITY (YEARS)	
NORTHSTAR HIGH-YIELD B		HY		139.8	29	5.00 **	1.91 †	1.3	8.4	NA	8.1	8.6	1
OPPENHEIMER BOND A	C	CI	C	247.2	30	4.75	1.27 †	5.6	6.8	6.5	6.5	6.8	200
OPPENHEIMER CHAMPION INCOME A	C	HY	C	606.9	15	4.75	1.06 †	0.4	8.4	7.9	8.9	6.0	100
OPPENHEIMER CONVERTIBLE SEC. B (ff)		CV		431.5	19	5.00 **	1.72 †	4.0	10.3	NA	4.5	5.5	1
OPPENHEIMER HIGH-YIELD A	C	HY	C-	1186.8	-3	4.75	1.00 †	0.1	8.6	7.5	9.4	NA	100
OPPENHEIMER INTERNATIONAL BOND B		IB		125.1	1	5.00 **	2.00 †	-5.1	4.6	NA	11.1	6.0	1
OPPENHEIMER LIMITED-TERM GOVT. A	B+	GS	B	669.0	19	3.50	0.87 †	6.9	6.5	6.0	6.6	NA	100
OPPENHEIMER STRAT. INCOME B	C-	MU	C-	4080.0	12	5.00 **	1.67 †	0.9	6.6	5.7	8.0	5.8	100
OPPENHEIMER U.S. GOVT. A	B	GI	B	606.4	22	4.75	1.03 †	6.3	7.0	6.8	5.9	4.9	100
PACIFIC HORIZON CAPITAL INCOME A	C-	CV	C	367.4	-3	5.50	1.10	9.0	16.7	13.2	5.3	3.3	100
PAINWEBBER GLOBAL INCOME A	C	IB	B	405.5	-13	4.00	1.21 †	10.7	7.2	6.0	5.8	6.2	200
PAINWEBBER HIGH-INCOME A	F	HY	F	233.7	-16	4.00	0.98 †	-6.2	7.5	4.0	10.1	9.4	100
PAINWEBBER INVT. GRADE INCOME A	C-	CL	C	215.4	1	4.00	1.03 †	4.8	6.9	6.6	6.6	17.8	100
PAINWEBBER U.S. GOVT. INCOME A	D	GI	F	276.4	-5	4.00	0.94 †	7.9	5.9	4.5	5.6	10.2	100
PARKSTONE INTERM. GOVT. INVT. A	C	GI	C	153.9	843	4.00	1.22 †	7.4	5.6	5.4	4.8	NA	100
PAYDEN & RYSEL TOTAL RET. R		CI		180.1	134	No load	0.45	8.9	NA	NA	6.3	6.2	
PAYDEN & RYSEL GLOBAL FIXED-INCOME R	A	IB	A	526.6	7	No load	0.49	11.7	8.8	8.1	6.3	9.0	200
PAYDEN & RYSEL INVT. QUALITY BOND R	C	CI	C	244.4	105	No load	0.45	8.1	6.2	6.5	5.9	6.2	100
PEGASUS BOND A	C	CI	C	226.3	80	4.50	0.86 †	7.9	7.5	7.4	5.8	6.0	100
PHOENIX HIGH-YIELD A	F	HY	D	473.4	-17	4.75	1.11 †	-6.7	7.5	6.1	10.4	7.3	100
PHOENIX MULTI-SECTOR FIXED-INCOME A	F	MU	D	154.3	-12	4.75	1.04 †	-6.9	4.9	5.2	9.5	15.9	100
PHOENIX U.S. GOVT. SECURITIES A	C-	CI	D	178.1	77	4.75	0.98 †	6.6	5.9	6.1	6.1	NA	200
PILGRIM HIGH-YIELD B (gg)		HY		216.3	178	5.00 **	1.75 †	-3.6	8.1	NA	9.3	7.9	1
PIMCO FOREIGN BOND INST.	A	IB	A	475.1	40	No load	0.50	10.0	12.8	10.0	5.9	10.0	100
PIMCO GLOBAL BOND INST.	B	IB	B+	253.9	-6	No load	0.56	12.4	7.1	8.2	5.3	10.9	100
PIMCO HIGH-YIELD INST.	A	HY	A	1733.3	49	No load	0.50	6.5	10.4	10.7	8.5	7.5	100
PIMCO LOW DURATION INST.	A	CS	A	3136.6	13	No load	0.43	7.2	7.2	6.8	6.5	2.4	100
PIMCO LOW DURATION II INST.	A	CS	B+	429.2	22	No load	0.51	6.6	6.5	6.2	5.8	2.9	100
PIMCO SHORT-TERM INST.	A	UB	B	377.7	103	No load	0.45	5.7	6.4	6.3	5.9	0.8	100
PIMCO TOTAL RETURN II INST.	B	CI	B+	857.8	81	No load	0.50	9.6	7.8	7.8	5.7	11.7	100
PIMCO TOTAL RETURN III INST.	B+	CI	A	430.5	29	No load	0.51	10.4	8.4	8.0	5.8	12.7	100
PIMCO TOTAL RETURN INST.	B+	CI	A	20125.7	36	No load	0.43	9.8	8.2	7.9	5.9	8.5	100
PIONEER AMERICA INCOME A	C-	GI	C-	127.8	-7	4.50	1.00 †	7.8	6.1	5.9	5.8	7.4	100
PIONEER BOND A	C-	CI	D	131.0	23	4.50	1.17 †	7.7	6.2	6.3	6.1	13.3	100
PREFERRED FIXED-INCOME	B	CI	B	162.1	10	No load	0.67	7.1	6.1	6.6	6.0	10.1	100
T. ROWE PRICE EMERG. MKTS. BOND		EB		146.1	29	No load	1.25	-23.1	7.1	NA	14.0	15.5	100
T. ROWE PRICE GNMA	B	GI	B+	1146.2	8	No load	0.70	6.6	6.4	6.9	6.5	6.6	100
T. ROWE PRICE HIGH-YIELD	C	HY	C	1704.0	8	1.00 *	0.81	4.5	10.1	7.3	9.1	8.8	100
T. ROWE PRICE INTERNATIONAL BOND	D	IB	C	926.5	12	No load	0.86	15.0	6.1	7.1	4.9	11.0	100
T. ROWE PRICE NEW INCOME	C	CI	C	2103.3	8	No load	0.71	5.0	5.6	6.4	6.3	13.7	100
T. ROWE PRICE SHORT-TERM BOND	C	CS	C-	346.9	1	No load	0.72	6.2	5.5	4.6	5.6	2.7	100
T. ROWE PRICE SHORT-TERM U.S.	B+	CS	B	136.3	34	No load	0.70	6.9	5.9	5.6	5.6	3.0	100
T. ROWE PRICE SPECTRUM INCOME	A	MU	A	2574.1	27	No load	0.00	6.6	8.8	8.6	6.2	11.5	100
T. ROWE PRICE U.S. TREAS. INTERM.	B	GI	B+	262.9	32	No load	0.61	10.2	6.9	6.7	5.2	5.9	100
T. ROWE PRICE U.S. TREAS. LONG-TERM	D	GL	C	309.8	50	No load	0.67	12.8	8.1	8.9	5.2	22.4	100
PRINCIPAL BOND A (hh)	C-	CI	C	148.1	14	4.75	0.95 †	7.1	6.7	7.3	6.1	10.7	100
PRINCIPAL GOVT. SECURITIES INCOME A (ii)	C-	GI	C-	251.5	1	4.75	0.84 †	7.2	6.9	6.7	6.1	NA	100
PRUDENTIAL DIVER. BOND B		MU		186.6	19	5.00 **	1.42 †	4.5	5.7	NA	5.8	11.0	1
PRUDENTIAL GOVT. INCOME A	C-	GI	C-	841.7	1	4.00	0.86 †	8.6	6.4	6.7	5.9	9.0	100
PRUDENTIAL GOVT. SHORT-INTERM. A	B	CS	C-	149.2	0	No load	0.97 †	6.0	5.7	5.4	5.5	4.0	100
PRUDENTIAL HIGH-YIELD B	C-	HY	C-	2379.4	-10	5.00 **	1.29 †	-0.7	7.6	7.3	9.2	7.0	100
PRUDENTIAL INTERM. GLOBAL INCOME A	B	IB	B+	126.2	-8	3.00	1.41 †	8.9	8.1	7.7	6.2	NA	100
PUTNAM AMERICAN GOVT. INCOME A	C	GI	C	1464.3	-4	4.75	0.97 †	8.5	6.6	6.9	5.9	NA	100
PUTNAM CONVERT. INCOME-GROWTH A	C	CV	B	1089.8	-8	5.75	1.03 †	4.9	13.9	12.4	4.5	NA	100
PUTNAM DIVERSIFIED INCOME B	D	MU	D	2145.1	-8	5.00 **	1.72 †	-2.6	4.1	4.5	6.7	9.6	100
PUTNAM GLOBAL GOVT. INCOME A	F	IB	D	250.6	-16	4.75	1.29 †	3.5	4.1	3.3	6.7	12.3	100
PUTNAM HIGH QUALITY BOND A (jj)	C-	CI	C-	340.4	-1	4.75	1.18 †	6.7	5.6	6.3	6.2	NA	100
PUTNAM HIGH YIELD ADV. A	F	HY	F	1262.6	-15	4.75 †	0.97 †	-9.5	4.3	5.0	11.5	NA	100
PUTNAM HIGH YIELD A	D	HY	D	2739.3	-16	4.75 †	0.95 †	-8.1	5.9	6.0	11.6	8.2	100
PUTNAM HIGH YIELD II B		HY		590.9	318	5.00 **	NA †	-0.2	NA	NA	8.3	NA	
PUTNAM INCOME A	C-	CI	D	1447.1	10	4.75	1.02 †	3.7	5.3	6.3	6.4	10.5	100
PUTNAM INTERM. U.S. GOVT. INCOME A	B	GS	C	237.5	76	3.25	1.15 †	7.6	6.2	6.3	5.6	NA	100
PUTNAM STRATEGIC INCOME B (kk)		MU		116.4	56	5.00 **	2.01 †	-2.7	NA	NA	7.8	NA	
PUTNAM U.S. GOVT. INCOME A	C	GI	B	2096.7	0	4.75	0.87 †	6.8	6.4	6.5	6.3	5.1	100
REGIONS FIXED-INCOME INVT. (ll)	C	CI	C	192.2	4	3.00 **	0.97 †	6.8	6.1	5.6	4.9	5.6	100
SALOMON BROS HIGH-YIELD BOND B		HY		326.8	0	5.00 **	1.99 †	-7.8	7.8	NA	9.9	8.1	1
SCHWAB SHORT-TERM BOND MKT. INDEX	B	CS	C	173.2	25	No load	0.46	7.0	6.0	5.1	5.4	NA	100
SCHWAB TOTAL BOND MKT. INDEX	C-	CI	D	327.1	247	No load	0.31	8.4	6.4	6.8	5.7	NA	100
SCUDDER EMERGING MKTS. INCOME	F	EB		208.4	-40	No load	1.49	-30.3	2.0	3.1	13.5	14.0	100
SCUDDER GNMA	B	GI	B	393.4	1	No load	1.02	6.9	6.4	6.4	5.9	6.0	100

*Includes redemption fee **Includes deferred sales charge. †12(b)-1 plan in effect. ‡Not currently accepting new accounts or deposits. NA=Not available. NM=Not meaningful
(ff) Formerly Oppenheimer Bond Fund for Growth B. (gg) Formerly Pilgrim America High-Yield B. (hh) Formerly Prncor Bond A. (ii) Formerly Prncor Government Securities Inc. A. (j)
merly Putnam Federal Income A. (kk) Formerly Putnam Diversified Income II B. (ll) Formerly First Priority Fixed-Income Investment.

DATA: MORNINGSTAR, INC., CHICAGO

wears starched shirts to the office.
wears spit-polished shoes to meetings.
hasn't worn pants all week.

who is he sleeping with?



WESTIN

HOTELS & RESORTS®

Even the most buttoned-up people relax
at a Westin resort. So don't pack much.

And plan on wearing even less.

Choose your travel partner wisely.®

Call your travel agent or
1-800-WESTIN-1
www.westin.com

MUTUAL FUND SCOREBOARD

Bond Fund

FUND	RATING (COMPARES RISK-ADJUSTED PERFORMANCE OF EACH FUND AGAINST ALL FUNDS)	CATEGORY (RATING COMPARES FUND WITHIN CATEGORY)	RATING	SIZE ASSETS \$MIL	% CHG. 1997-98	FEES SALES CHARGE (%)	EXPENSE RATIO (%)	PERFORMANCE TOTAL RETURN (%)			PORTFOLIO		HOLDINGS
								1 YR	3 YR	5 YR	YIELD (%)	MATURITY (YEARS)	
SCUDDER HIGH-YIELD BOND		HY		207.2	33	1.00 *	0.03	4.4	NA	NA	9.6	7.5	
SCUDDER INCOME	C	CI	C	807.9	16	No load	1.18	6.1	6.0	6.2	5.8	9.0	
SCUDDER INTERNATIONAL BOND	F	IB	D	145.5	-18	No load	1.36	12.6	3.8	2.1	5.3	7.1	
SCUDDER SHORT-TERM BOND	C	CS	D	995.5	-15	No load	0.86	4.3	4.8	4.3	5.8	2.8	
SEI DAILY INTERM.-DURATION GOVT. A	B	GI	B+	123.5	7	No load	0.49	8.5	6.5	6.4	5.5	6.8	
SEI INST. CORE FIXED-INCOME A	B	CL	B+	1605.9	42	No load	0.60 †	8.5	7.2	7.1	5.6	10.4	
SEI INTERNATIONAL EMERG. MKT. DEBT A		EB		190.5	9	No load	1.35	-20.9	NA	NA	4.2	8.1	
SEI INTERNATIONAL FIXED-INCOME A	C-	IB	C	592.7	73	No load	1.00	18.5	6.2	8.7	1.3	8.0	
SELIGMAN HIGH-YIELD BOND A	B+	HY	B+	1050.5	40	4.75	1.14 †	1.3	10.0	10.1	9.9	8.2	
SIT U.S. GOVERNMENT SECURITIES	A	GS	A	141.9	53	No load	0.80	6.5	6.6	6.6	5.3	NA	
SMITH BARNEY ADJ. RATE GOVT. A	B+	GS	B+	121.4	0	No load	1.58 †	4.3	5.1	5.1	5.3	NA	
SMITH BARNEY DIVERS. STRAT. INCOME B	B+	MU	B	2246.5	-6	4.50 **	1.50 †	5.2	7.4	6.6	7.0	5.0	
SMITH BARNEY GOVT. SECURITIES A	D	GI	D	351.4	-3	4.50	0.92 †	8.1	7.0	6.1	5.5	NA	
SMITH BARNEY HIGH-INCOME B	C	HY	C-	830.5	15	4.50 **	1.55 †	-0.3	8.0	7.1	9.3	NA	
SMITH BARNEY INVESTMENT GRADE B	F	CL	F	263.3	6	4.50 **	1.51 †	7.7	7.5	8.7	5.4	NA	
SMITH BARNEY MANAGED GOVT. A	C-	GI	C	365.1	-7	4.50	1.01 †	5.7	6.3	5.9	6.1	NA	
SMITH BARNEY U.S. GOVT. SECURITIES A	C	GI	C	257.5	-5	4.50	0.80 †	6.0	6.5	6.8	6.1	NA	
SOUTHWEST BOND (nm)	C-	CI	D	128.3	22	3.50	0.84	9.3	7.0	6.3	5.3	9.0	
SSGA BOND MARKET		CI		182.9	68	No load	0.48 †	8.4	NA	NA	5.5	9.3	
SSGA YIELD PLUS	A	UB	C	788.3	12	No load	0.41 †	4.9	5.3	5.3	5.7	10.0	
STAGECOACH U.S. GOVT. INCOME A	D	GI	D	179.3	-14	4.50	0.89 †	7.4	5.2	5.7	5.3	NA	
STAGECOACH VARIABLE RATE GOVT. A	C-	GS	F	130.4	-43	3.00	0.81 †	3.6	4.5	3.4	5.1	NA	
STAR STRATEGIC INCOME B		MU		200.9	13	5.00 **	1.26 †	-3.2	3.7	NA	7.3	11.6	
STAR U.S. GOVT. INCOME A	C-	CI	D	150.0	10	3.50	0.89 †	7.9	6.2	6.0	5.4	10.8	
STATE ST. RESEARCH GOVT. INCOME A	C	GI	B	517.2	-1	4.50	1.08 †	9.1	7.1	7.0	6.0	10.7	
STATE ST. RESEARCH HIGH-INCOME A	C	HY	C	649.3	-6	4.50	1.10 †	-0.4	10.0	8.0	10.1	NA	
STEIN ROE INCOME	C	CI	C	362.5	-15	No load	0.83	3.9	6.1	6.6	6.9	9.4	
STEIN ROE INTERMEDIATE BOND	B	CI	B	454.9	16	No load	0.72	6.4	6.7	6.7	6.6	7.2	
STRONG ADVANTAGE	A	UB	B	2631.9	29	No load	0.80	4.8	6.0	5.8	6.0	1.0	
STRONG CORPORATE BOND	A	CI	A	844.5	51	No load	1.00	7.3	8.2	9.4	6.6	11.6	
STRONG GOVERNMENT SECURITIES	B	CI	B+	1326.9	46	No load	0.80	8.1	6.6	7.0	5.6	NA	
STRONG HIGH-YIELD BOND		HY		551.4	-3	No load	0.60	3.1	14.9	NA	9.5	9.5	
STRONG SHORT-TERM BOND	B+	CS	B	1315.1	0	No load	0.90	4.9	6.2	5.7	6.9	2.2	
STRONG SHORT-TERM HIGH-YIELD BOND		HY		135.3	-76	No load	1.00	8.4	NA	NA	7.4	2.9	
SUNAMERICA HIGH-INCOME B	F	HY	D	119.3	11	4.00 **	2.13 †	-6.2	6.7	4.4	10.1	7.9	
SUNAMERICA U.S. GOVT. SECURITIES B	C	GI	B	148.3	-36	4.00 **	2.26 †	6.1	5.1	5.6	4.4	13.5	
TCW/DW NORTH AMERICA GOVT. INC.	F	IB	D	146.1	-27	No load	1.59 †	6.8	6.2	3.3	5.4	NA	
TEMPLETON GLOBAL BOND A (nn)	C	IB	B	181.5	-9	4.25	1.17 †	5.4	6.1	6.3	5.6	5.1	
THORNBURG LIMITED-TERM U.S. A	B	GS	C-	124.5	-5	2.50	0.97 †	7.0	6.0	5.6	5.5	NA	
TIAA-CREF BOND PLUS		CI		145.2	149	No load	NA	8.9	NA	NA	5.4	7.0	
U.S. GOVERNMENT SECURITIES	C-	GI	C-	1307.0	17	4.75	0.79 †	7.9	6.3	5.8	6.0	7.2	
UNITED BOND A	C-	CI	D	547.5	5	5.75	0.77 †	7.3	6.7	6.7	5.9	NA	
UNITED GOVERNMENT SECURITIES A	C-	GI	C	137.6	7	4.25	0.89 †	7.5	6.1	6.5	5.9	NA	
UNITED HIGH-INCOME A	B	HY	B	1023.4	-5	5.75	0.84 †	3.9	9.9	8.6	8.5	NA	
UNITED HIGH-INCOME II A	C	HY	C	412.6	0	5.75	0.93 †	2.7	9.8	8.2	8.8	NA	
USAA GNMA	B+	GI	A	452.9	31	No load	0.30	8.2	6.9	7.3	6.3	10.5	
USAA INCOME	C	CL	B	1768.6	3	No load	0.38	8.8	7.0	7.6	6.5	7.5	
USAA SHORT-TERM BOND	B+	CS	B	204.6	41	No load	0.50	5.0	6.2	5.9	6.1	2.6	
VALUE LINE AGGRESSIVE INCOME	C	HY	C	165.5	23	No load	0.95	-5.3	9.0	8.3	10.6	7.7	
VALUE LINE U.S. GOVERNMENT	D	GI	D	182.4	-3	No load	0.66	7.7	6.9	4.6	5.8	5.8	
VAN KAMPEN CORP. BOND A (oo)	C-	CI	C-	191.7	10	4.75	1.13 †	7.3	6.8	7.2	6.6	13.9	
VAN KAMPEN GOVT. SECURITIES A (pp)	C-	GI	C-	1876.1	-3	4.75	1.03 †	8.3	6.4	6.1	6.2	6.4	
VAN KAMPEN HARBOR A (qq)	D	CV	D	377.4	0	5.75	1.04 †	7.5	12.1	10.1	3.4	7.8	
VAN KAMPEN HIGH-INCOME CORP. B (rr)	C-	HY	C-	291.8	31	4.00 **	1.86 †	-0.8	7.5	6.7	9.4	7.6	
VAN KAMPEN HIGH-YIELD A (ss)	C-	HY	C-	270.1	-7	4.75	1.14 †	-1.4	7.2	6.9	9.4	20.2	
VAN KAMPEN PRIME RATE INCOME (tt)	A	UB	B+	7908.5	8	3.00 *	1.41	6.3	6.7	6.9	6.6	NA	
VAN KAMPEN U.S. GOVT. A (uu)	C-	GI	C-	2077.9	-8	4.75	0.90 †	5.8	6.1	5.9	6.8	4.9	
VANGUARD CONVERTIBLE SECURITIES	F	CV	D	177.6	-5	No load	0.67	0.6	10.6	8.3	4.8	NA	
VANGUARD GNMA (vv)	A	GI	A	10993.1	26	No load	0.31	7.1	7.3	7.4	6.6	5.6	
VANGUARD HIGH-YIELD CORP. (ww)	A	HY	B+	5380.5	18	1.00 *	0.28	5.6	9.0	8.7	8.5	7.7	
VANGUARD INTERM.-TERM U.S. TREASURY (xx)	C	GI	C	1863.7	24	No load	0.27	10.6	7.1	7.2	5.7	7.4	
VANGUARD INTERM.-TERM BOND INDEX (yy)		CI		1102.4	61	No load	0.20	10.2	7.3	NA	6.1	7.0	
VANGUARD INTERM.-TERM CORP. BOND (zz)	C	CI	C	1181.4	37	No load	0.26	8.3	6.6	7.1	6.2	7.0	
VANGUARD LONG-TERM BOND INDEX (aaa)		CL		210.0	141	No load	0.20	12.0	8.5	NA	5.9	22.9	
VANGUARD LONG-TERM CORP. BOND (bbb)	C-	CL	C	4152.9	15	No load	0.32	9.2	7.9	8.5	6.2	19.1	
VANGUARD LONG-TERM U.S. TREASURY (ccc)	D	GI	C	1415.5	37	No load	0.27	13.1	8.3	9.0	5.6	18.5	
VANGUARD PREFERRED STOCK	B+	CL	B+	372.8	13	No load	0.37	6.7	9.3	8.7	5.6	9.4	
VANGUARD SHORT-TERM BOND INDEX (ddd)		CS		708.9	62	No load	0.20	7.6	6.4	NA	5.7	2.8	
VANGUARD SHORT-TERM CORP. (eee)	A	CS	B+	5427.7	18	No load	0.28	6.6	6.1	6.1	6.1	2.8	
VANGUARD SHORT-TERM FEDERAL (fff)	B+	GS	B	1634.9	16	No load	0.27	7.2	6.1	5.9	5.7	2.7	

(mm) Form. SouthTrust Vulcan Bond. (nn) Form. Templeton Glob. Bond I. (oo) Form. Van Kampen Amer. Cap. Corp. Bond A. (pp) Form. Van Kampen Amer. Cap. Govt. Secs. A. (qq) Form. Van Kampen Amer. Harbor A. (rr) Form. Van Kampen Amer. Cap. H-I. Corp. Bond B. (ss) Form. Van Kampen Amer. Cap. H-Y A. (tt) Form. Van Kampen Amer. Cap. Prime Rate. (uu) Form. Van Kampen Amer. Cap. U.S. Govt. Bond A. (vv) Form. F/I GNMA. (ww) Form. F/I High-Yield Corp. (xx) Form. F/I U.S. Treas. (yy) Form. F/I U.S. Treas. Bond Index I-T. (zz) Form. F/I U.S. Treas. Bond Index L-T. (aaa) Form. F/I U.S. Treas. Bond Index L-T. (bbb) Form. F/I U.S. Treas. Bond Index L-T. (ccc) Form. F/I U.S. Treas. Bond Index L-T. (ddd) Form. F/I U.S. Treas. Bond Index L-T. (eee) Form. F/I U.S. Treas. Bond Index L-T. (fff) Form. F/I U.S. Treas. Bond Index L-T. DATA: MORNINGSTAR, INC., CHICAGO

*Estimated reseller price to end users for IBM PC 300GL model 6287 41U, monitor shown is IBM G-54 with 15" screen and 13.7" viewable image, starting at \$239, certain features described below are available for an additional charge. Actual prices may vary. MHz denotes microprocessor internal clock speed only, other factors may also affect application performance. PCs in this ad include an operating system. IBM product names are trademarks of International Business Machines Corporation. Wake on LAN is a product of IBM/Intel Advanced Manageability Alliance and is a trademark of IBM Corporation. Intel, the Intel Inside logo and Pentium are registered trademarks of Intel Corporation. © 1999 IBM Corporation. All rights reserved.

limit 12,000 per customer

IBM



price

from \$1,135*

muscle

Pentium® II processor 350 mhz up to 64mb sdram, up to 8.4gb hard drive, 4 slots, 4 bays

simplicity

Customizable SystemXtra™ financing, service, support and training options.

load up

More is definitely better. And affordable, even after you buy. Cost-saving, standards-based management features, like Wake on LAN™, allow you to easily integrate truckloads of IBM PC 300GLs into your enterprise. www.ibm.com/ibmpc or call 1 800 IBM 7255, ext. 5030.

e-business tools

GL

MUTUAL FUND SCOREBOARD

Bond Funds

FUND	RATING (COMPARES RISK-ADJUSTED PERFORMANCE OF EACH FUND AGAINST ALL FUNDS)	CATEGORY	RATING (RATING COMPARES FUND WITHIN CATEGORY)	SIZE ASSETS \$MIL	% CHG. 1997-98	FEES SALES CHARGE (%)	EXPENSE RATIO (%)	PERFORMANCE TOTAL RETURN (%)			PORTFOLIO YIELD MATURITY		RISK RATING
								1 YR.	3 YR.	5 YR.	(%)	(YEARS)	
VANGUARD SHORT-TERM TREAS. (ggg)	B+	GS	B+	1184.1	19	No load	0.27	7.4	6.1	5.9	5.3	2.8	1
VANGUARD TOTAL BOND MKT. INDEX (hhh)	B	CI	B	7764.6	55	No load	0.20	8.6	7.2	7.2	6.1	8.4	1
VICTORY INTERMEDIATE INCOME	C	CS	F	258.1	5	5.75	0.96	7.5	5.9	5.7	5.3	4.9	1
VICTORY INVESTMENT QUAL. BOND	C-	CI	C-	166.9	-10	5.75	1.04	7.5	6.1	6.3	5.3	7.2	1
WARBURG PINCUS FIXED INC. COMM.	B+	CI	A	415.0	33	No load	0.75	6.5	7.2	7.1	5.5	5.4	1
WARBURG PINCUS GLOBAL FIXED-INCOME	C	IB	B	156.0	-11	No load	0.96	8.4	6.8	6.0	5.9	10.2	3
WM INCOME A (iii)	C-	CL	C	209.3	169	4.50	1.03†	7.2	7.0	7.2	6.6	11.4	3
WM U.S. GOVT. SECURITIES A (jjj)	C-	GI	C-	258.4	141	4.50	0.97†	7.0	6.4	6.5	5.7	7.5	3
WPG CORE BOND (kkk)	D	CI	F	139.5	29	No load	0.86	9.3	6.8	4.7	5.6	10.1	3
WRIGHT TOTAL RETURN BOND	C-	CL	C	115.6	45	No load	0.90†	9.5	6.5	6.6	5.1	8.5	3
TAX EXEMPT													
AARP INSURED T/F GENERAL BOND	C	ML	C	1713.5	D	No load	0.62	5.4	6.0	5.3	4.7	11.0	3
AIM MUNICIPAL BOND A	B	MI	C-	326.9	3	4.75	0.90†	5.3	5.5	5.0	5.0	13.6	2
AIM TAX-FREE INTERMEDIATE	A	MS	C-	217.5	13	1.00	0.45	5.5	5.5	5.0	4.4	5.8	1
ALLIANCE MUNI. INCOME CALIF. A	C	MC	C	570.0	18	4.25	0.78†	6.4	7.3	6.6	5.2	19.9	4
ALLIANCE MUNI. INSURED NATL. A	D	ML	D	177.5	1	4.25	1.02†	5.6	6.7	6.2	4.6	18.7	4
ALLIANCE MUNI. INCOME NATL. A	C-	ML	C-	367.6	9	4.25	0.69†	5.7	6.8	6.1	5.2	18.5	4
ALLIANCE MUNI. INCOME N.Y. A	C-	MY	C	214.0	13	4.25	0.65†	5.9	7.2	6.1	5.1	21.4	3
AMERICAN CENT.-BENHAM CALIF. MUNI. HI-YLD. A	A	MC	A	324.0	48	No load	0.50	6.8	7.7	6.9	5.1	21.9	3
AMERICAN CENT.-BENHAM CALIF. T/F INS.	C	MC	B	221.2	12	No load	0.48	6.1	6.4	6.0	4.8	18.4	4
AMERICAN CENT.-BENHAM CALIF. T/F INTERM.	B+	MF	B	480.0	10	No load	0.48	5.6	5.8	5.3	4.5	9.1	2
AMERICAN CENT.-BEN CALIF. T/F LONG	B	MC	B	340.2	9	No load	0.48	6.3	6.5	6.2	5.0	22.4	4
AMERICAN HIGH-INCOME MUNI. BOND		MI		521.2	43	4.75	0.79†	4.9	7.2	NA	5.1	8.2	1
AMSOUTH MUNICIPAL BOND PREMIER		MI		320.3	-4	No load	NA	5.4	NA	NA	4.1	6.3	
ATLAS CALIF. MUNICIPAL BOND A	C	MF	C-	211.6	9	No load	0.95†	5.9	5.9	5.1	4.4	20.6	3
BERNSTEIN CALIF. MUNICIPAL	B+	MF	B	557.2	30	No load	0.67	5.1	5.1	5.0	4.0	5.8	2
BERNSTEIN DIVERSIFIED MUNI.	B+	MI	B	1407.7	19	No load	0.65	4.6	4.9	4.9	4.1	6.6	1
BERNSTEIN N.Y. MUNICIPAL	B+	MN	A	819.0	16	No load	0.65	5.2	5.1	5.0	4.2	6.0	1
BERNSTEIN SHORT DURATION DIV. MUNI.		MS		166.8	9	No load	0.72	3.9	3.7	NA	3.5	1.4	2
BOSTON 1784 CONN. T/E INCOME		SI		170.8	42	No load	0.80†	6.7	6.3	NA	4.4	8.5	1
BOSTON 1784 MASS. T/E INCOME	B	SI	C	235.7	28	No load	0.80†	5.8	6.0	5.1	4.4	9.8	3
BOSTON 1784 T/E MED.-TERM INCOME	A	MI	B+	326.7	14	No load	0.80†	6.4	6.6	6.1	4.4	10.0	2
CALIFORNIA INVMT. TAX-FREE INCOME	C-	MC	C-	231.2	9	No load	0.61	6.3	6.2	5.7	4.4	13.0	4
CALVERT TAX-FREE RES. LTD.-TERM A	A	MS	B+	541.5	-4	1.00	0.69	3.9	4.0	4.0	3.7	0.7	1
CHURCHILL TAX-FREE OF KENTUCKY A	B+	SI	B+	229.3	1	4.00	0.72†	5.0	5.8	5.4	4.9	17.2	2
CITIFUNDS NATL. TAX-FREE INCOME (a)		ML		246.5	NM	No load	0.14†	10.1	8.2	NA	4.7	13.0	1
CITIFUNDS N.Y. TAX-FREE INCOME (b)	C	MY	B+	453.3	496	No load	0.80†	6.9	6.5	5.7	4.3	11.5	4
COLONIAL CALIF. TAX-EXEMPT A	D	MC	D	247.7	-3	4.75	0.87†	6.0	6.4	5.9	4.6	16.9	4
COLONIAL MASS. TAX-EXEMPT A	C-	SL	C	178.0	-2	4.75	0.90†	6.0	6.0	5.8	4.7	15.4	3
COLONIAL TAX-EXEMPT A	C-	ML	C-	2459.8	-4	4.75	0.98†	6.7	6.3	5.8	5.1	18.2	3
COLONIAL TAX-EXEMPT INSURED A	D	ML	D	168.6	-8	4.75	1.07†	5.6	5.7	5.4	4.5	16.1	3
COLUMBIA MUNICIPAL BOND	B+	SI	B+	463.3	13	No load	0.57	5.6	5.9	5.3	4.6	12.0	2
DAVIS TAX-FREE HIGH INCOME B	A	MS	A	257.2	43	4.00 **	2.02†	3.9	5.4	5.3	5.0	19.0	1
DELAWARE TAX-FREE PA. A	B	SI	C	876.2	-5	4.75	0.91†	5.0	5.3	5.2	4.9	7.6	2
DELAWARE TAX-FREE U.S. A	C	MI	C-	565.8	-7	3.75	0.97†	4.8	4.6	4.7	5.0	9.3	2
DELAWARE-VOYAGEUR MINN. INS. A	C	SL	C	285.9	-1	3.75	0.92†	5.7	5.9	5.2	4.7	8.0	4
DELAWARE-VOYAGEUR T/F ARIZ. INS. A	C	SL	C	180.0	-4	3.75	0.82†	5.7	6.2	5.7	4.6	6.6	3
DELAWARE-VOYAGEUR T/F COLO. A	C	SL	B	363.3	1	3.75	0.81†	6.3	7.2	6.2	4.9	7.7	4
DELAWARE-VOYAGEUR T/F MINN. A	C	SL	B	418.2	0	3.75	0.89†	6.1	6.3	5.6	4.9	7.4	4
DREYFUS BASIC MUNI. BOND		ML		209.8	51	No load	0.45	6.8	7.4	NA	4.8	21.0	1
DREYFUS CALIF. INTERMEDIATE MUNI.	C	MF	C-	202.6	0	No load	0.79	5.8	5.7	4.8	4.2	9.3	3
DREYFUS CALIF. TAX-EXEMPT BOND	C-	MC	C-	1290.0	-3	No load	0.71	5.8	5.8	4.7	4.6	17.2	4
DREYFUS FLA. INTERMEDIATE MUNI.	C	SI	C-	327.7	-6	1.00 *	0.80	5.0	4.9	4.6	4.4	7.9	3
DREYFUS INSURED MUNI. BOND	F	ML	F	186.7	-4	No load	0.85†	5.8	5.5	4.4	4.6	24.1	4
DREYFUS INTERMEDIATE MUNI.	B+	MI	C	1320.5	-4	No load	0.74	5.5	5.6	5.2	4.8	8.9	2
DREYFUS MASS. TAX-EXEMPT BOND	C	SL	B	161.7	4	No load	0.81	6.1	6.4	5.5	4.8	21.8	3
DREYFUS MUNI. BOND	C	ML	C	3249.3	-5	No load	0.73	5.7	5.8	5.0	5.0	22.7	4
DREYFUS N.J. INTERM. MUNI. BOND	C	SI	C	217.5	1	No load	0.78	5.4	5.2	4.7	4.2	7.1	3
DREYFUS N.J. MUNI. BOND	B	SL	B	604.5	2	1.00 *	0.80†	5.8	6.0	5.2	4.8	18.1	3
DREYFUS N.Y. TAX-EX. BOND	C	MY	C	1660.2	-1	1.00 *	0.73	6.7	6.1	5.2	4.7	17.4	4
DREYFUS N.Y. TAX-EX. INTERM. BOND	B	MN	C	375.6	3	1.00 *	0.80†	6.0	6.1	5.3	4.3	8.3	3
DREYFUS PREMIER MUNI. BOND A	C	ML	C	442.1	-1	4.50	0.91	4.5	6.0	5.5	5.1	18.6	3
DREYFUS PREMIER ST. MUNI. CONN. A	C	SL	B	314.7	0	4.50	0.90	6.3	6.7	5.8	5.0	20.3	3
DREYFUS PREMIER ST. MUNI. MD. A	B+	SL	B+	263.1	-1	4.50	0.90	5.7	6.5	5.9	5.0	22.7	3
DREYFUS PREMIER ST. MUNI. OHIO A	B	SL	B+	238.3	-1	4.50	0.90	5.2	5.8	5.6	5.1	18.1	2
DREYFUS PREMIER ST. MUNI. PA. A	C	SL	B	191.2	-5	4.50	0.92	5.7	6.5	6.1	5.0	20.2	3
DREYFUS SHORT-INTERM. MUNI. BOND	A	MS	B	301.0	4	No load	0.76†	4.5	4.6	4.1	4.2	2.4	1
DUPREE KENTUCKY TAX-FREE INCOME	B	SI	B	410.2	17	No load	0.62	5.6	5.8	5.6	5.0	17.6	2
EATON VANCE CALIF. MUNICIPALS B	C-	MC	C-	294.3	-7	5.00 **	1.65†	5.4	6.2	5.2	4.3	21.1	4

*Includes redemption fee. **Includes deferred sales charge. †112(b)-1 plan in effect. ‡Not currently accepting new accounts or deposits. NA=Not available. NM=Not meaningful. (ggg) Form. Vanguard F/I Short-Term U.S. Treas. (hhh) Form. Vanguard Bond Index Total Bond Mkt. (iii) Form. Composite Inc. A. (jjj) Form. Composite U.S. Government Secs. (k) Form. WPG Govt. Secs. (a) Form. Landmark Natl. Tax-Free Inc. A. (b) Form. Landmark N.Y. Tax Free Inc. A.

DATA: MORNINGSTAR, INC., CHICAGO

RISE AND SIGN.



For guaranteed delivery with the people who make more on-time morning deliveries than anyone else, call 1-800-PICK-UPS or visit ups.com.

MOVING at the SPEED of BUSINESS.®



MUTUAL FUND SCOREBOARD

Bond Fund

FUND	RATING (COMPARES RISK-ADJUSTED PERFORMANCE OF EACH FUND AGAINST ALL FUNDS)	CATEGORY (RATING COMPARES FUND WITHIN CATEGORY)	RATING	SIZE ASSETS \$MIL.	% CHG. 1997-98	FEES		PERFORMANCE			PORTFOLIO		H
						SALES CHARGE (%)	EXPENSE RATIO (%)	TOTAL RETURN (%)			YIELD (%)	MATURITY (YEARS)	
EATON VANCE CONN. MUNICIPAL B	F	SL	D	158.8	-5	5.00 **	1.60 †	5.0	5.4	4.3	4.2	20.0	4
EATON VANCE FLA. MUNICIPAL B	F	SL	F	423.7	-14	5.00 **	1.52 †	5.4	4.9	4.4	4.1	22.8	4
EATON VANCE HIGH-YIELD MUNICIPAL B (c)		ML		232.9	27	5.00 **	1.74 †	4.0	7.7	NA	5.2	23.7	
EATON VANCE N.J. MUNICIPAL B	C-	SL	C-	320.4	-4	5.00 **	1.57 †	4.9	5.6	4.6	4.5	20.6	4
EATON VANCE MASS. MUNICIPAL B	D	SL	D	219.3	-7	5.00 **	1.58 †	5.3	5.6	4.7	4.4	21.9	4
EATON VANCE NATL. MUNICIPAL B	C	ML	B	2050.8	-1	5.00 **	1.60 †	4.9	7.1	6.2	5.1	23.4	4
EATON VANCE N.Y. MUNICIPAL B	D	MY	D	460.5	-9	5.00 **	0.57 †	5.7	5.8	4.9	4.3	19.7	4
EATON VANCE OHIO MUNICIPAL B	D	SL	C-	241.7	-9	5.00 **	1.61 †	4.9	5.4	4.7	4.5	20.5	4
EATON VANCE PA. MUNICIPAL B	F	SL	F	339.0	-11	5.00 **	1.56 †	2.1	4.7	4.0	4.8	20.3	4
EVERGREEN FLA. HIGH-INC. MUNI. A	A	SL	A	283.1	109	4.75	0.89 †	6.2	7.5	7.1	5.1	22.4	2
EVERGREEN FLA. MUNI. BOND A	F	SL	F	163.9	60	4.75	0.46 †	6.1	6.3	5.4	4.7	14.7	4
EVERGREEN PA. MUNICIPAL Y (d)		SL		177.7	18	No load	NA	5.7	NA	NA	4.6	15.6	
EXCELSIOR INT.-TERM TAX-EXEMPT	B+	ML	B	318.3	26	No load	0.58	6.3	5.9	5.5	4.0	8.0	2
EXCELSIOR LONG-TERM TAX-EXEMPT	B	ML	B	180.6	35	No load	0.74	6.3	6.5	7.0	4.2	22.1	3
EXECUTIVE INVESTORS INS. TAX-EXEMPT	B	ML	B+	1181.1	0	4.75	0.75 †	7.8	7.2	7.3	4.8	17.0	2
FEDERATED INTERMEDIATE MUNI.	B+	MI	C	237.2	11	No load	0.57	5.2	5.4	4.7	4.8	7.0	2
FEDERATED MUNICIPAL OPPORT. F	C	ML	B	307.7	-6	2.00 **	1.08 †	5.5	5.7	5.2	5.1	20.5	3
FEDERATED MUNICIPAL SECURITIES A	C	ML	C	574.1	-4	4.50	0.86	5.6	5.1	4.8	4.7	19.2	2
FEDERATED PA. MUNI. INCOME A	B	SL	B	238.8	10	4.50	0.75 †	5.7	7.0	6.2	4.7	10.7	3
FEDERATED SHORT-TERM MUNI. INST.	A	MS	B	195.0	10	No load	0.47	4.8	4.5	4.3	4.2	3.0	1
FIDELITY ADV. MUNI. INCOME T	C	ML	C	377.8	-3	3.50	0.87 †	6.2	6.4	5.3	4.5	13.5	4
FIDELITY SPARTAN CALIF. MUNI. INCOME	C	MC	B	1318.5	9	No load	0.53	6.6	7.0	5.9	4.6	14.0	4
FIDELITY SPARTAN CONN. MUNI. INCOME	B	SL	B	372.7	8	0.50 *	0.55	5.8	6.4	5.6	4.7	12.1	4
FIDELITY SPARTAN FLA. MUNI. INCOME	C	SL	B	455.0	9	0.50 *	0.55	6.3	6.3	5.9	4.5	12.1	4
FIDELITY SPARTAN INTERM. MUNI. (e)	B+	MI	B	1146.0	26	No load	0.55	5.9	6.2	5.5	4.7	8.6	3
FIDELITY SPARTAN MASS. MUNI. INCOME	B	SL	B+	1366.9	13	No load	0.53	5.6	6.2	5.8	4.8	13.5	3
FIDELITY SPARTAN MICH. MUNI. INCOME	C	SL	C	478.5	5	No load	0.56	5.7	6.0	4.9	4.8	14.5	4
FIDELITY SPARTAN MINN. MUNI. INCOME	B	SL	B+	311.0	5	No load	0.56	5.5	6.0	5.4	4.7	13.8	3
FIDELITY SPARTAN MUNI. INCOME	C	ML	B	4638.9	98	No load	0.55	6.0	6.7	5.5	4.7	12.2	4
FIDELITY SPARTAN N.J. MUNI. INCOME	B	SL	B+	390.6	7	0.50 *	0.55	5.8	6.1	5.3	4.7	12.8	3
FIDELITY SPARTAN N.Y. MUNI. INCOME (f)	C	MY	B	1171.2	163	No load	0.55	6.3	6.6	5.9	4.6	14.1	4
FIDELITY SPARTAN OHIO MUNI. INCOME	B	SL	B+	392.1	1	No load	0.56	5.8	6.2	5.7	4.5	12.9	3
FIDELITY SPARTAN PA. MUNI. INCOME	B+	SL	A	267.1	1	0.50 *	0.55	5.8	6.0	5.9	4.4	11.0	3
FIDELITY SPARTAN SHORT-INT. MUNI.	A	MS	C	639.0	-9	No load	0.55	4.7	4.7	4.4	4.1	3.2	1
FIRST INVESTORS INSURED T/E A	D	ML	C-	1122.1	-6	6.25	1.14 †	6.0	5.7	5.2	4.9	15.9	3
FIRST INVESTORS N.Y. INS. T/F A	D	MY	C-	188.5	-3	6.25	1.23 †	6.0	5.6	5.1	4.9	17.2	3
FRANKLIN ALA. TAX-FREE INCOME A (g)	B	SL	B-	236.1	11	4.25	0.72 †	3.4	5.8	5.5	5.4	21.7	2
FRANKLIN ARIZ. TAX-FREE INCOME A (h)	B+	SL	B+	851.8	8	4.25	0.63 †	5.4	5.9	5.5	5.2	19.7	2
FRANKLIN CALIF. HIGH YLD. MUNI. A (i)	A	MC	A	514.8	64	4.25	0.35 †	7.4	8.4	7.3	5.6	24.2	3
FRANKLIN CALIF. INS. T/F INCOME A (j)	B	MC	B	1798.4	7	4.25	0.60 †	6.5	6.3	5.8	5.0	20.9	1
FRANKLIN CALIF. INTERM-TERM T/F	B+	MF	B+	187.1	47	2.25	0.52 †	6.5	6.6	6.1	4.6	8.5	2
FRANKLIN CALIF. TAX-FREE INCOME A (k)	A	MC	A	15523.5	6	4.25	0.56 †	6.5	6.7	6.3	5.4	21.0	2
FRANKLIN COLO. TAX-FREE INCOME A (l)	B	SL	B+	298.9	13	4.25	0.71 †	5.7	6.4	5.8	5.0	20.3	3
FRANKLIN CONN. TAX-FREE INCOME A (m)	B	SL	B+	233.5	17	4.25	0.73 †	6.0	6.3	5.4	5.2	19.5	3
FRANKLIN FED. TAX-FREE INCOME A (n)	B+	ML	A	7189.4	1	4.25	0.59 †	5.9	6.5	6.0	5.4	19.7	2
FRANKLIN FLA. TAX-FREE INCOME A (o)	B+	SL	A	1771.6	6	4.25	0.61 †	6.4	6.3	5.9	5.2	18.8	2
FRANKLIN GA. TAX-FREE INCOME A (p)	B+	SL	A	163.9	12	4.25	0.76 †	5.6	6.0	5.5	5.1	19.5	2
FRANKLIN HIGH YIELD T/F INCOME A (q)	A	ML	A	5897.3	13	4.25	0.61 †	4.8	7.2	6.9	5.8	20.2	1
FRANKLIN INSURED T/F INCOME A (r)	B+	MI	C	1731.0	3	4.25	0.61 †	6.1	6.1	5.5	5.2	20.1	2
FRANKLIN MD. TAX-FREE INCOME A (s)	B	SL	B+	247.9	17	4.25	0.74 †	5.9	6.1	5.9	5.0	21.1	3
FRANKLIN MASS. INS. T/F INCOME A (t)	B+	SL	A	338.0	-2	4.25	0.68 †	5.4	6.0	5.6	5.0	20.0	2
FRANKLIN MICH. INS. T/F INCOME A (u)	B+	SL	A	1157.6	2	4.25	0.63 †	6.5	6.3	5.6	5.0	17.9	2
FRANKLIN MINN. INS. T/F INCOME A (v)	B	SI	B	509.6	4	4.25	0.65 †	5.7	5.6	5.2	5.1	18.8	2
FRANKLIN MO. TAX-FREE INCOME A (w)	B	SL	B+	360.5	19	4.25	0.71 †	5.8	6.5	5.8	5.1	18.5	3
FRANKLIN N.J. TAX-FREE INCOME A (x)	B	SL	B+	679.7	8	4.25	0.66 †	6.1	6.2	5.6	5.2	19.7	1
FRANKLIN N.Y. INS. T/F INCOME A (y)	C-	MY	C	270.3	4	4.25	0.71 †	5.9	6.3	5.5	4.8	20.3	4
FRANKLIN N.Y. TAX-FREE INCOME A (z)	B+	MY	A	4877.5	1	4.25	0.58 †	6.6	6.7	5.9	5.4	18.1	2
FRANKLIN N.C. TAX-FREE INCOME A (aa)	B	SL	B+	337.2	15	4.25	0.70 †	5.9	6.3	5.6	5.0	17.9	3
FRANKLIN OHIO INS. T/F INCOME A (bb)	B	SL	B+	772.1	5	4.25	0.64 †	5.9	6.2	5.5	5.0	18.9	2
FRANKLIN ORE. TAX-FREE INCOME A (cc)	B	SI	B	477.2	14	4.25	0.67 †	5.4	6.0	5.4	5.2	19.1	3
FRANKLIN PA. TAX-FREE INCOME A (dd)	B+	SL	A	755.7	7	4.25	0.65 †	5.5	6.3	5.8	5.3	13.3	2
FRANKLIN P.R. TAX-FREE INCOME A (ee)	B+	SL	A	216.3	5	4.25	0.75 †	5.7	6.5	5.8	5.1	18.4	2
FRANKLIN VA. TAX-FREE INCOME A (ff)	B	SL	B+	376.2	15	4.25	0.69 †	5.8	6.2	5.7	5.1	20.9	2
GENERAL CALIF. MUNICIPAL BOND	C	MC	C	291.3	-1	0.10 *	0.77 †	5.5	6.2	5.6	4.9	21.0	4
GENERAL MUNICIPAL BOND	C	ML	C	600.1	-8	0.10 *	0.87 †	5.0	5.4	4.9	5.1	20.3	4
GENERAL N.Y. MUNICIPAL BOND	C	MY	C	293.8	-7	No load	0.90 †	6.4	6.3	5.4	4.6	19.7	4
HANCOCK CALIF. TAX-FREE INCOME A	C	MC	C	306.1	3	4.50	0.75 †	6.7	7.1	6.3	5.0	18.4	4
HANCOCK TAX-FREE BOND A	D	ML	D	595.9	-1	4.50	0.85 †	5.5	6.5	5.7	5.1	19.5	4
HAWAIIAN TAX-FREE A	C	SL	B	647.0	-2	4.00	0.72 †	5.7	5.7	5.4	4.8	15.3	2
IDS CALIF. TAX-EXEMPT A	C-	MF	D	254.8	7	5.00	0.75	5.8	5.8	5.2	5.0	21.1	3

(c) Form. EV Marathon H-Y Muni. (d) Form. Evergreen PA T-F. (e) Form. Fid. L-T Muni. (f) Form. Fid. N.Y. Muni. (g) Form. Frank. AL T-F I. (h) Form. Frank. AZ T-F I. (i) Form. Frank. CA H-Y Muni. (j) Form. Frank. CA T-F I. (k) Form. Frank. CO T-F I. (l) Form. Frank. CT T-F I. (m) Form. Frank. CT T-F I. (n) Form. Frank. Fed. T-F I. (o) Form. Frank. FL T-F I. (p) Form. Frank. GA T-F I. (q) Form. Frank. H-Y T-F I. (r) Form. Frank. Ins. T-F I. (s) Form. Frank. MD T-F I. (t) Form. Frank. MA. Ins. T-F Inc. I. (u) Form. Frank. MI. Ins. T-F I. (v) Form. Frank. MN. Ins. T-F I. (w) Form. Frank. MO. T-F I. (x) Form. Frank. N.J. T-F I. (y) Form. Frank. NY Ins. T-F I. (z) Form. Frank. N.C. T-F I. (aa) Form. Frank. N.C. T-F I. (bb) Form. Frank. OH. Ins. T-F Inc. I. (cc) Form. Frank. OR. T-F I. (dd) Form. Frank. PA. T-F I. (ee) Form. Frank. PR. T-F I. (ff) Form. Frank. VA. T-F I. DATA: MORNINGSTAR, INC. C

Business calling made clear.



Introducing

The Sprint PCS Free & Clear PlanSM

Free long distance, clear calling

Introducing predictable wireless calling. Sprint PCS Free & Clear Plans, all with free long distance. One fixed monthly rate gives your employees the freedom to call anyone, anytime, anywhere.

- Free: Long distance is always free and you'll pay no roaming charges – whenever you call from anywhere on our nationwide network.

- Clear: Be confident that you can have crystal-clear conversations wherever you are, because your phone works the same and costs the same everywhere on our network.

Call us today and compare Sprint PCS to your current wireless provider.

The clear alternative to cellularSM for business.

\$49.99 • 400 minutes

\$69.99 • 600 minutes

\$99.99 • 1000 minutes

\$149.99 • 1500 minutes



1-888-214-1559 • www.sprintpcs.com/clear

Sprint PCS[®]

S Free & Clear PlansSM may be combined with Sprint residential long-distance promotions and may not be used in conjunction with certain other promotions, discounts and contests. These plans are available for both new and existing customers between January 11, 1999, and March 7, 1999. The Sprint PCS Free & Clear Plans cannot be combined with the Off-Peak/Weekend 3d-a-Phone, Prepaid plans or Association Pricing. Overage rate for \$49.99/400 is \$0.30 per minute. Overage rate for \$69.99/600 is \$0.25 per minute. Overage rate for \$99.99/1000 is \$0.25 per minute. Overage rate for \$149.99/1500 is \$0.25 per minute. Two-year contract required. Calls made while roaming off the Sprint PCS nationwide network are charged at \$0.69 per minute or \$0.39 per minute depending on local market-specific offers. Calls made while off the Sprint PCS nationwide network, whether local or long distance, will not be offset by included minutes. Any applicable long-distance charges on calls made while roaming off the Sprint PCS nationwide network vary by provider. Availability of the Sprint PCS Free & Clear Plans is subject to credit to business approval. ©1999 Sprint L.P. All rights reserved. Sprint, Sprint PCS and the diamond logo are registered trademarks of Sprint Communications Company, L.P., used under license. Sprint Personal Communication is a registered service mark of Sprint Communications Company, L.P., used under license. Sprint PCS Phone is a trademark of Sprint Communications Company, L.P., used under license.

MUTUAL FUND SCOREBOARD

Bond Fund

FUND	RATING	CATEGORY	RATING	SIZE	FEES	PERFORMANCE	PORTFOLIO	HIST				
COMPARES RISK-ADJUSTED PERFORMANCE OF EACH FUND AGAINST ALL FUNDS		RATING COMPARES FUND WITHIN CATEGORY		ASSETS \$ MIL.	% CHG. 1997-98	SALES CHARGE (%)	EXPENSE RATIO (%)	TOTAL RETURN (%)	YIELD (%)	MATURITY YEARS	RES. ALL	
								1 YR	3 YR	5 YR		
IDS HIGH-YIELD TAX-EXEMPT A	B	ML	B	5728.2	-1	5.00	0.70	5.4	5.8	5.7	5.5 20.1	324
IDS INSURED TAX-EXEMPT A	F	ML	F	459.1	-1	5.00	0.74	5.5	5.1	4.9	4.9 20.9	324
IDS MINN. TAX-EXEMPT A	C	SL	B	396.2	4	5.00	0.75	5.9	5.9	5.5	5.5 20.8	233
IDS TAX-EXEMPT BOND A	D	ML	D	985.3	-2	5.00	0.73	5.5	5.7	5.4	4.9 17.9	414
INVESCO TAX-FREE LONG-TERM BOND	C-	ML	C-	208.9	-5	No load	0.91†	4.7	5.2	4.9	4.1 9.9	334
KEMPER MUNICIPAL BOND A	C-	ML	C	3036.4	-4	4.50	0.68	5.7	6.1	6.0	4.8 17.3	315
KEMPER STATE TAX-FREE INCOME CALIF. A	C	MC	C	954.3	-4	4.50	0.79	6.0	5.8	6.0	4.7 16.2	315
KEMPER STATE TAX-FREE INCOME N.Y. A	C	MY	B	265.1	-2	4.50	0.83	6.0	5.9	5.9	4.6 17.5	323
LEGG MASON MD. T.F. INCOME PRIM.	B+	SL	A	163.3	8	2.75	0.70†	5.5	5.6	5.5	4.7 16.1	233
LIMITED TERM N.Y. MUNICIPAL A	A	MS	B+	979.5	27	3.50	0.83†	5.9	6.2	5.6	4.9 12.6	141
LIMITED TERM TAX-EX. BOND AMERICAN	B+	MS	D	269.1	29	4.75	0.75†	5.5	5.8	5.2	4.3 5.6	242
LORD ABBETT TAX-FREE INCOME CALIF. A	F	MC	F	242.4	-6	4.75	0.72†	6.1	6.2	4.7	4.7 21.7	423
LORD ABBETT TAX-FREE INCOME NATL. A	C-	ML	C-	596.8	-2	4.75	0.87†	6.4	6.8	5.7	4.8 22.1	423
LORD ABBETT TAX-FREE INCOME N.J.	C	SI	C-	184.4	-1	4.75	0.82†	6.5	6.5	5.7	4.8 19.6	423
LORD ABBETT TAX-FREE INCOME N.Y. A	F	MY	F	280.0	-5	4.75	0.85†	6.1	6.1	4.7	5.0 18.4	423
MAINSTAY TAX-FREE BOND B	C	ML	C	461.4	-4	5.00**	1.22†	4.8	5.6	4.9	4.5 23.8	333
MERRILL LYNCH CALIF. MUNI. BOND B	C-	MC	C-	325.1	-11	4.00**	1.14†	5.4	5.8	5.1	4.6 18.8	423
MERRILL LYNCH MUNI. INSURED B	D	ML	D	487.4	-9	4.00**	1.18†	5.0	5.2	4.7	4.4 17.9	423
MERRILL LYNCH MUNI. NATL. B	C	ML	C	416.3	1	4.00**	1.31†	4.5	5.7	5.1	4.7 20.5	423
MERRILL LYNCH N.Y. MUNI. BOND B	F	MY	F	228.1	-15	4.00**	1.16†	5.4	5.7	4.4	4.2 20.5	423
MFS CALIF. MUNICIPAL BOND A	C-	MC	C-	223.8	-1	4.75	0.64†	6.4	6.4	5.5	4.8 14.5	424
MFS MASS. MUNICIPAL BOND A	C	SL	C	241.9	2	4.75	1.06†	4.9	5.5	5.1	5.0 16.2	334
MFS MUNICIPAL BOND A	F	ML	D	1549.7	-7	4.75	0.60	4.9	5.1	5.0	4.9 16.2	324
MFS MUNICIPAL HIGH-INCOME A	B+	ML	B+	1148.6	5	4.75	0.89	5.7	5.8	6.0	5.8 20.5	233
MFS MUNICIPAL INCOME A	B	ML	B	203.1	13	4.75	1.23†	5.1	6.1	5.6	5.3 16.9	233
MFS N.C. MUNICIPAL BOND A	C-	SL	C	365.7	-4	4.75	1.03†	4.9	5.8	5.2	4.7 17.8	333
MFS VA. MUNICIPAL BOND A	D	SL	C-	367.2	-2	4.75	1.03†	5.0	5.2	4.8	4.7 16.4	424
MORGAN GRENELL MUNI. BOND	A	MI	A	586.5	58	No load	0.54	5.4	6.5	6.2	4.6 7.0	143
J.P. MORGAN TAX-EXEMPT BOND	B+	MI	B	453.1	16	No load	0.64	5.5	5.5	5.3	4.3 7.5	243
MSDW CALIF. TAX-FREE INCOME B (gg)	C	MC	C	885.4	-3	5.00**	1.33†	5.6	5.4	4.8	4.4 16.0	333
MSDW N.Y. TAX-FREE INCOME B (hh)	C-	MN	C-	161.8	-5	5.00**	1.41†	5.3	5.5	4.8	4.0 16.0	424
NATIONWIDE TAX-FREE INCOME D (ii)	D	ML	D	263.3	2	4.50	0.96†	5.2	5.8	4.8	4.7 18.6	423
NEW ENGLAND MUNICIPAL INCOME A	C-	ML	C-	172.7	-3	4.50	0.93†	5.3	6.2	5.2	5.1 10.0	423
NORTHERN INTERMEDIATE TAX-EXEMPT		MS		330.3	14	No load	0.85	5.2	4.8	NA	3.7 6.7	14
NORTHERN TAX-EXEMPT		ML		199.8	30	No load	0.85	5.8	5.8	NA	4.1 16.7	14
NUVEEN FLAGSHIP ALL-AMERICAN A	B	ML	B	285.6	27	4.20	0.81†	5.9	7.0	6.2	5.1 23.1	323
NUVEEN FLAGSHIP CONN. MUNI. A	C	SL	B	222.7	3	4.20	0.78†	5.8	6.3	5.6	4.9 20.5	323
NUVEEN FLAGSHIP FLA. MUNI. A	C-	SL	C	307.1	3	4.20	0.84†	5.5	5.5	5.2	5.0 22.3	333
NUVEEN FLAGSHIP KENTUCKY MUNI. A	C	SL	B	465.4	5	4.20	0.77†	5.3	6.0	5.7	5.0 21.7	323
NUVEEN FLAGSHIP LTD.-TERM MUNI. A	B+	MS	D	448.9	4	2.50	0.77†	5.0	5.3	4.8	4.7 6.4	143
NUVEEN FLAGSHIP MICH. MUNI. A	C	SL	B	267.8	2	4.20	0.84†	5.6	6.0	5.7	4.9 20.1	333
NUVEEN FLAGSHIP MO. MUNI. A	C	SL	C	241.8	3	4.20	0.87†	5.8	6.3	5.6	4.9 21.3	333
NUVEEN FLAGSHIP N.C. MUNI. A	C	SL	C	186.3	0	4.20	0.86†	5.5	5.8	5.2	4.9 21.9	333
NUVEEN FLAGSHIP OHIO MUNI. A	C	SL	B	479.8	1	4.20	0.85†	5.8	5.7	5.4	5.0 21.5	433
NUVEEN FLAGSHIP TENN. MUNI. A	C	SL	B	287.8	6	4.20	0.82†	5.5	6.0	5.5	4.9 21.5	433
OPPENHEIMER CALIF. MUNICIPAL A	C-	MC	C	311.9	4	4.75	0.92†	5.9	6.8	5.9	4.8 20.9	413
OPPENHEIMER MUNICIPAL BOND A	C-	ML	C-	594.0	1	4.75	0.87†	6.0	6.9	5.6	5.0 18.9	413
OPPENHEIMER N.Y. MUNICIPAL A	D	MY	D	600.9	-5	4.75	0.86†	5.9	6.4	5.2	5.0 17.7	423
PACIFIC HORIZON CALIF. MUNI. BOND A (jj)	C-	MC	C-	221.1	2	5.50	0.90	6.5	6.3	5.6	4.4 13.8	323
PAINEWEBBER NATL. TAX-FREE INCOME A	D	ML	D	228.9	-1	4.00	0.91†	5.6	5.6	4.9	4.6 19.2	433
PIONEER TAX-FREE INCOME A	C	ML	C	392.3	-5	4.50	0.93†	6.1	6.2	5.5	4.4 17.8	323
T. ROWE PRICE CALIF. TAX-FREE BOND	B	MC	B+	219.6	17	No load	0.58	6.4	6.7	6.1	4.8 17.3	323
T. ROWE PRICE MD. TAX-FREE	B+	SL	A	1036.7	14	No load	0.51	6.2	6.2	5.8	5.1 15.9	323
T. ROWE PRICE N.Y. TAX-FREE	B	MY	A	209.8	23	No load	0.61	6.5	6.6	6.0	4.8 19.3	323
T. ROWE PRICE TAX-FREE HIGH-YIELD	A	ML	A	1344.5	12	No load	0.72	5.6	6.9	6.4	5.3 19.7	223
T. ROWE PRICE TAX-FREE INCOME	B	ML	B+	1481.3	7	No load	0.55	6.0	6.2	5.9	5.1 17.2	323
T. ROWE PRICE TAX-FREE SHORT-INTERM.	A	MS	B	458.5	4	No load	0.54	5.0	4.8	4.5	4.1 4.3	143
T. ROWE PRICE VA. TAX-FREE	B+	SL	A	269.5	19	No load	0.65	6.2	6.4	6.0	4.8 17.2	323
PRUDENTIAL CALIF. MUNI. CALIF. INCOME A	B+	MC	B+	189.3	16	3.00	0.68†	6.5	7.0	6.9	5.2 17.0	213
PRUDENTIAL MUNI. HIGH-INCOME B (kk)	B+	ML	B+	664.6	-1	5.00**	1.04†	5.0	6.1	6.0	5.5 17.9	233
PRUDENTIAL MUNI. INSURED A	C-	ML	C	250.6	10	3.00	0.68†	6.0	5.8	5.6	4.7 17.0	323
PRUDENTIAL MUNICIPAL N.Y. A	C-	MY	C	183.1	4	3.00	0.73†	6.3	5.9	5.6	4.8 17.3	323
PRUDENTIAL NATL. MUNICIPALS A	C	ML	C	487.2	-1	3.00	0.70†	5.4	5.9	5.5	4.9 18.6	323
PUTNAM CALIF. TAX-EXEMPT INCOME A	C	MC	C	3052.5	-2	4.75	0.74†	6.4	6.2	5.9	5.6 21.5	413
PUTNAM FLA. TAX-EXEMPT INCOME A	C-	SL	C	240.5	-1	4.75	0.96†	5.1	5.6	5.4	4.8 19.6	323
PUTNAM MASS. TAX-EXEMPT INCOME A	C	SL	B	300.3	4	4.75	0.95†	5.3	6.0	5.8	5.2 19.8	313
PUTNAM MUNICIPAL INCOME A	C	ML	C	835.2	1	4.75	0.95†	5.6	6.1	5.8	5.4 8.5	313
PUTNAM N.J. TAX-EXEMPT INCOME A	C-	SL	C	218.7	-3	4.75	0.96†	4.9	5.8	5.2	4.8 18.7	333
PUTNAM N.Y. TAX-EXEMPT INCOME A	F	MY	F	1616.8	-7	4.75	0.79†	5.0	5.7	4.8	4.8 10.7	433
PUTNAM N.Y. TAX-EXEMPT OPPORT. A	B+	MN	B+	166.8	0	4.75	1.00†	5.3	6.0	6.1	5.0 18.2	223

† Formerly National Tax-Free Income D (ii) Formerly Nationwide Tax-Free Income (jj) Formerly Pacific Horizon CA. Tax-Free Bond A (kk) Formerly Prudential Municipal Bond High-Yield B.

DATA: MORNINGSTAR, INC., CHICAGO

Children can learn well

in environments that incubate young minds.

Cleaner air, brighter lights, safer halls, cozier rooms.



Comfort solutions keep hatching at Honeywell.

Honeywell

www.honeywell.com

Home and Building Control • Industrial Control • Space and Aviation Control

MUTUAL FUND SCOREBOARD

Bond Fund

FUND	RATING (COMPARES RISK-ADJUSTED PERFORMANCE OF EACH FUND AGAINST ALL FUNDS)	CATEGORY (RATING COMPARES FUND WITHIN CATEGORY)	RATING	SIZE ASSETS \$ MIL.	% CHG. 1997-98	FEES SALES CHARGE (%)	EXPENSE RATIO (%)	PERFORMANCE TOTAL RETURN (%) 1 YR. 3 YR. 5 YR.	PORTFOLIO YIELD (%) MATURITY (YEARS)	H
PUTNAM OHIO TAX-EXEMPT INCOME A	C	SL	B	186.3	1	4.75	0.98†	4.5 5.5 5.3	5.1 17.3	31
PUTNAM PA. TAX-EXEMPT INCOME A	C	SL	C	185.4	-3	4.75	0.98†	3.7 5.4 5.4	5.0 17.9	31
PUTNAM TAX-EXEMPT INCOME A	D	ML	D	1976.5	-4	4.75	0.78†	4.7 5.7 5.1	4.9 9.7	31
PUTNAM TAX-FREE HIGH YIELD A	B	MI	C-	1022.7	62	4.75	0.88†	5.0 5.8 5.5	5.3 8.9	31
PUTNAM TAX-FREE INSURED B	C-	ML	C	354.5	5	5.00**	0.74†	5.2 5.3 5.1	4.9 18.3	31
ROCHESTER FUND MUNICIPALS A	C	MY	B+	3434.4	21	4.75	0.75†	6.6 7.4 6.1	5.6 22.0	31
SAFECO MUNICIPAL BOND NO-LOAD	C	ML	C	539.9	7	No load	0.51	6.4 6.7 6.2	5.0 22.0	31
SCHWAB CALIF. LONG-TERM T/F BOND	C	MC	B	193.3	40	No load	0.49	6.5 6.9 5.9	4.7 19.7	31
SCUDDER CALIF. TAX-FREE	C	MC	B	340.7	8	No load	0.78	6.0 6.6 5.9	4.6 12.0	31
SCUDDER HIGH-YIELD TAX-FREE	B+	ML	B+	430.5	28	No load	0.90	6.4 7.6 6.3	5.0 9.6	31
SCUDDER MANAGED MUNI. BONDS	B	ML	B	735.2	1	No load	0.64	6.2 6.5 5.9	4.9 9.7	31
SCUDDER MASS. TAX-FREE	B	SL	B+	404.5	12	No load	0.76	6.2 6.3 5.8	4.8 8.5	31
SCUDDER MEDIUM-TERM TAX-FREE	B+	MI	B	676.8	3	No load	0.74	5.6 5.7 5.5	4.5 6.3	31
SCUDDER N.Y. TAX-FREE	C-	MY	C	214.8	12	No load	0.83	5.9 6.2 5.6	4.4 12.7	31
SEI TAX-EXEMPT INTERM.-TERM MUNI. A	B+	MI	B	532.8	66	No load	0.60†	5.6 5.8 5.3	4.1 8.0	31
SIT MINN. TAX-FREE INCOME	A	MS	A	230.4	80	No load	0.80	6.1 6.8 6.5	5.0 19.8	31
SIT TAX-FREE INCOME	A	MI	A	800.5	77	No load	0.76	6.3 7.3 6.7	5.0 17.0	31
SMITH BARNEY CALIF. MUNICIPALS A	B	MC	B+	749.4	15	4.00	0.71†	5.5 7.4 7.1	4.7 18.5	31
SMITH BARNEY MANAGED MUNIS. A	B	ML	B	2484.9	8	4.00	0.68†	4.6 7.0 7.0	5.0 17.7	31
SMITH BARNEY MUNI. LTD. TERM A	A	MI	B+	293.9	16	2.00	0.75†	5.7 5.8 5.4	4.9 11.0	31
SMITH BARNEY MUNI. NATIONAL A	B	ML	B+	402.5	10	4.00	0.70†	5.6 6.6 6.3	5.5 17.9	31
SMITH BARNEY MUNI. N.Y. A	B	MY	B+	564.0	2	4.00	0.71†	5.9 6.8 6.3	5.1 21.7	31
SMITH BARNEY MUNI. HIGH INCOME B (II)	B	ML	B	443.3	-17	4.50**	1.32†	5.0 6.0 5.2	4.8 18.7	31
SMITH BARNEY N.J. MUNICIPALS A	C	SL	B	168.0	9	4.00	0.76†	6.0 6.5 5.6	5.1 17.4	31
STAGECOACH CALIF. TAX-FREE BOND A	B	MC	B+	492.0	-3	4.50	0.75†	6.8 6.6 6.2	4.5 14.8	31
STATE ST. RESEARCH TAX-EXEMPT A	C-	ML	C-	206.2	-1	4.50	1.08†	5.8 6.3 5.4	4.8 19.8	31
STEIN ROE HIGH-YIELD MUNIS.	A	ML	A	329.3	0	No load	0.75	5.3 6.4 6.4	5.3 17.2	31
STEIN ROE INTERMEDIATE MUNIS.	B+	MI	C	200.6	0	No load	0.70	5.4 5.7 5.2	4.5 8.8	31
STEIN ROE MANAGED MUNICIPALS	B	ML	B+	579.2	-3	No load	0.72	5.5 6.2 5.7	5.0 14.9	31
STRONG HIGH-YIELD MUNI. BOND	A	ML	A	641.7	45	No load	0.70	5.3 8.0 7.4	5.7 11.4	31
STRONG MUNICIPAL ADVANTAGE		MS		1746.0	89	No load	0.40	4.6 4.8 NA	4.3 0.9	31
STRONG MUNICIPAL BOND	B	MI	C-	348.7	45	No load	0.70	6.7 7.0 5.4	5.1 10.9	31
STRONG SHORT-TERM MUNI. BOND	B+	MS	C-	263.9	46	No load	0.60	5.6 5.8 4.2	4.9 2.8	31
TAX-EXEMPT BOND OF AMERICA	B+	ML	B+	1862.9	12	4.75	0.66†	6.1 6.5 6.2	4.9 7.3	31
TAX-EXEMPT FUND OF CALIF.	B	MF	C	374.2	19	4.75	0.71†	6.1 6.2 6.0	4.7 7.3	31
TAX-FREE FUND OF COLO. A	C	SI	C	206.9	-4	4.00	0.72†	4.9 5.3 4.9	4.7 8.1	31
TAX-FREE TRUST OF ARIZ. A	C	SI	C-	403.4	2	4.00	0.73†	5.5 5.8 5.3	4.7 15.3	31
TAX-FREE TRUST OF ORE. A	B	SI	C	325.5	4	4.00	0.69†	5.5 5.5 5.2	4.9 12.3	31
THORNBURG INTERM. MUNI. A	B+	MI	B	371.3	18	3.50	1.00†	5.5 5.7 5.5	4.6 8.4	31
THORNBURG LTD.-TERM NATL. A	B+	MS	C-	822.0	-4	2.50	0.97†	4.8 4.7 4.5	4.4 4.2	31
THORNBURG N.M. INTERM. MUNI. A	B+	SI	A	157.1	5	3.50	1.00†	4.9 5.2 4.9	4.6 7.0	31
UNITED MUNICIPAL BOND A	C	ML	C	985.7	0	4.25	0.67†	5.2 6.5 6.2	4.9 11.6	31
UNITED MUNICIPAL HIGH-INCOME A	A	ML	A	524.2	9	4.25	0.78†	6.8 8.5 7.6	5.7 8.6	31
USAA CALIF. BOND	B	MC	B+	608.3	19	No load	0.40	6.9 7.5 6.6	5.2 18.6	31
USAA FLA. TAX-FREE INCOME	C-	SL	C	180.5	32	No load	0.50	6.4 7.3 5.7	4.9 21.3	31
USAA TAX-EXEMPT INTERM.-TERM	A	MI	B+	2252.0	16	No load	0.37	6.3 6.7 6.1	5.2 9.0	31
USAA TAX-EXEMPT LONG-TERM	B	ML	B+	2173.0	9	No load	0.36	6.0 6.9 5.9	5.5 16.6	31
USAA TAX-EXEMPT SHORT-TERM	A	MS	B+	1004.6	7	No load	0.39	5.0 5.1 4.8	4.6 2.8	31
USAA VIRGINIA BOND	B+	SL	A	385.1	16	No load	0.44	6.0 6.8 6.0	5.2 19.9	31
VALUE LINE TAX-EXEMPT HIGH-YIELD	C	ML	C	184.2	-2	No load	0.63	5.4 5.9 5.2	4.7 19.5	31
VAN KAMPEN HIGH-YIELD MUNI. A (mm)	A	MI	A	912.2	15	4.75 ‡	0.95†	6.7 7.8 7.4	6.1 20.3	31
VAN KAMPEN INS. TAX-FREE A (nn)	D	ML	D	1321.6	4	4.75	0.92†	4.4 5.3 5.1	4.9 20.0	31
VAN KAMPEN MUNICIPAL INCOME A (oo)	C-	ML	C-	813.4	6	4.75	0.89†	5.2 6.1 5.3	5.4 19.5	31
VAN KAMPEN PA. TAX-FREE INCOME A (pp)	C	SL	C	218.3	-2	4.75	1.04†	5.3 5.9 5.5	5.2 19.0	31
VAN KAMPEN TAX-FREE HIGH-INCOME A (qq)	B	ML	B	779.6	11	4.75	0.94†	6.0 6.0 5.6	5.6 20.8	31
VANGUARD CALIF. INS. INT. TAX-EXEMPT (rr)		MF		1033.7	66	No load	0.18	6.1 6.4 NA	4.5 8.0	31
VANGUARD CALIF. INS. LONG TAX-EXEMPT (ss)	B	MC	B	1502.8	23	No load	0.16	6.6 6.8 6.4	4.9 11.0	31
VANGUARD FLA. INS. LONG TAX-EXEMPT (tt)	B	SL	B+	892.6	30	No load	0.19	6.7 6.6 6.3	4.8 9.7	31
VANGUARD HIGH-YIELD TAX-EXEMPT (uu)	B+	ML	B+	2767.3	21	No load	0.19	6.5 6.7 6.4	5.2 12.2	31
VANGUARD INS. LONG TERM TAX-EXEMPT (vv)	B	ML	B	2268	9	No load	0.19	6.1 6.3 6.1	5.2 10.6	31
VANGUARD INTERM.-TERM TAX-EXEMPT (ww)	A	MI	B+	7895.6	15	No load	0.19	5.8 5.7 5.6	4.9 6.4	31
VANGUARD LIMITED-TERM TAX-EXEMPT (xx)	A	MS	B	2391.2	18	No load	0.19	5.1 4.8 4.6	4.2 3.3	31
VANGUARD LONG-TERM TAX-EXEMPT (yy)	B	ML	B+	1536.7	20	No load	0.19	6.0 6.6 6.2	5.1 10.7	31
VANGUARD N.J. INS. LONG TAX-EXEMPT (zz)	B	SL	B+	1123.7	16	No load	0.18	6.3 6.0 5.8	5.0 7.9	31
VANGUARD N.Y. INS. LONG TAX-EXEMPT (aaa)	B	MY	B+	1421.2	22	No load	0.20	6.2 6.3 6.0	5.0 9.4	31
VANGUARD OH. INS. LONG TAX-EXEMPT (bbb)	B	SL	B+	326.8	26	No load	0.17	6.2 6.3 5.9	4.9 7.5	31
VANGUARD PA. INS. LONG TAX-EXEMPT (ccc)	B+	SL	A	1940.2	9	No load	0.18	6.2 6.3 5.9	5.2 9.0	31
VANGUARD SHORT-TERM TAX-EXEMPT (ddd)	A	MS	B+	1656.8	11	No load	0.19	4.3 4.0 3.9	3.9 1.2	31
WM CALIF. MUNICIPAL A (eee)	C	MC	C	288.5	-8	4.50	1.00†	5.9 6.8 5.7	4.8 19.9	31
WM TAX-EXEMPT BOND A (fff)	D	ML	C-	293.3	56	4.50	0.80†	4.9 5.3 5.2	4.9 9.1	31

(II) Form. Smith Barney Tax-Ex. B. (mm) Form. Van Kampen Amer. Cap. High-Yield Muni A. (nn) Form. Van Kampen Amer. Cap. Ins. T-F Inc. A. (oo) Form. Van Kampen Amer. Cap. Muni. A. (pp) Form. Van Kampen Amer. Cap. PA. T-F Inc. A. (qq) Form. Van Kampen Amer. Cap. T-F High-Inc. A. (rr) Form. Vanguard. CA. T-F Ins. Int. (ss) Form. Vanguard. CA. T-F Ins. L-T. (tt) Form. Vanguard. FLA. Ins. T-F. (uu) Form. Vanguard. M. (vv) Form. Vanguard. Muni. Ins. L-T. (ww) Form. Vanguard. Muni. Int.-Term. (xx) Form. Vanguard. Muni. Ltd.-Term. (yy) Form. Vanguard. Muni. L-T. (zz) Form. Vanguard. N.J. T-F Ins. L-T. (aaa) Form. Vanguard. N.Y. T-F Ins. L-T. (bbb) Form. Vanguard. OH. Tax-Free Ins. L-T. (ccc) Form. Vanguard. PA. Tax-Free Ins. L-T. (ddd) Form. Vanguard. Muni. S-T. (eee) Form. Sierra Tr. CA. Muni. A. (fff) Form. Compos. T-E Bond A. DATA: MORNINGSTAR, INC., CHICAGO

DEATH. TAXES. INTERNET SERVICE.

NOW THREE THINGS IN LIFE ARE 100% GUARANTEED.

UUNET is pleased to introduce the industry's first 100% Internet service availability guarantee, part of our comprehensive Service Level Agreement. It means guaranteed access on US leased-line and frame relay connections,* along with guaranteed latency rates and guaranteed 24-7 monitoring of your connections by our Network Operations professionals. In fact, we even guarantee we'll promptly and proactively notify you of any problems and get your new connection up and running when we say we will. So call 1 888 886 3844 or visit info.uu.net/three. And discover one guarantee you can actually enjoy. UUNET, an MCI WorldCom[®] Company. Uniting the world of business.



AN MCI WORLD COM COMPANY

U.S. +1 202 206 5600 Canada: 1 888 242 0653 © 1998 UUNET Technologies, Inc., a subsidiary of MCI WorldCom, Inc. All rights reserved. The UUNET logo is a trademark. * In the contiguous U.S.

AARP FUNDS

800-322-2282

ABN AMRO FUNDS

800-443-4725

ACCESSOR FUNDS

800-759-3504

ADVANCE CAPITAL I GROUP

800-345-4783

AIM FAMILY OF FUNDS

800-347-4246

ALLEGHANY FUNDS

800-992-8151

ALLIANCE CAPITAL FUNDS

800-227-4618

AMERICAN CENTURY

INVESTMENTS

800-345-2021

AMERICAN FUNDS GROUP

800-421-4120

AMSOUTH FUNDS

800-451-8379

AQUILA GROUP

800-872-5859

ARMADA FUNDS

800-622-3863

ASSET MANAGEMENT FUNDS

800-527-3713

ATLAS FUNDS

800-933-2852

BABSON FUND GROUP

800-422-2766

BERNSTEIN FUNDS

212-756-4097

WILLIAM BLAIR FUNDS

800-742-7272

BOND FUND OF AMERICA

See American Funds Group

BOSTON 1784 FUNDS

800-252-1784

BRINSON FUNDS

800-448-2430

BT FUNDS

800-730-1313

CALIFORNIA INVESTMENT TRUST

800-225-8778

CALVERT GROUP

800-368-2748

CAPITAL WORLD BOND

See American Funds Group

CHICAGO TRUST MUNICIPAL BOND

See Alleghany Funds

CITIFUNDS

800-721-1899

COLONIAL GROUP

800-426-3750

COLUMBIA FUNDS

800-547-1707

CONCERT INVESTMENT SERIES

800-544-5445

DAVIS FUNDS

800-279-0279

DELAWARE INVESTMENTS

800-523-4640

DELAWARE-VOYAGEUR FUNDS

See Delaware Investments

DODGE & COX GROUP

800-621-3979

DREYFUS GROUP

800-373-9387

DREYFUS PREMIER FUNDS

800-554-4611

DUPREE MUTUAL FUNDS

800-866-0614

EATON VANCE GROUP

800-225-6265

EV CLASSIC

See Eaton Vance Group

EVERGREEN FUNDS

800-343-2898

EXCELSIOR FUNDS

800-446-1012

FEDERATED FUNDS

800-341-7400

FTW FUNDS

800-762-4848

FIDELITY ADVISOR FUNDS

800-522-7297

FIDELITY GROUP

800-544-8888

FIRST AMERICAN INVESTMENT

FUNDS

800-637-2548

FIRST INVESTORS GROUP

800-423-4026

FLAG INVESTORS FUNDS

800-767-3524

FORTIS FUNDS

800-800-2638

FPA FUNDS

800-982-4372

FRANKLIN GROUP OF FUNDS

800-342-5236

FREMONT MUTUAL FUNDS

800-548-4539

GALAXY FUNDS

800-628-0414

GE FUNDS

800-242-0134

GENERAL FUNDS

See Dreyfus Group

GLOBAL TOTAL RETURN A

See Prudential Mutual Funds

GOLDMAN SACHS GROUP

800-526-7384

GREAT PLAINS FUNDS

800-568-8257

GUARDIAN GROUP

800-221-3253

HANCOCK FUNDS

800-225-5291

HARBOR FUNDS

800-422-1050

HAWAIIAN TAX-FREE A

See Aquila Group

HOMESTEAD FUNDS

800-258-3030

HOTCHKIS & WILEY FUNDS

800-236-4479

IDS GROUP

800-328-8300

INTEGRITY MUTUAL FUNDS

701-857-0236

INTERMEDIATE BOND FD AMERICA

See American Funds Group

INVESCO FAMILY OF FUNDS

800-525-8085

ISG FUNDS

800-852-0045

ISI FUNDS

800-955-7175

JANUS

800-525-8983

KEMPER FUNDS

800-621-1048

KEYPREMIER FUNDS

800-766-3960

LEGG MASON FAMILY OF FUNDS

800-577-8589

LEXINGTON GROUP

800-526-0056

LIMITED TERM T-E BD. AMER.

See American Funds Group

LOOMIS SAYLES FUNDS

800-633-3330

LORD ABBETT FAMILY OF FUNDS

800-874-3733

MAINSTAY FUNDS

800-624-6782

MANAGERS FUNDS

800-835-3879

MARSHALL FUNDS

800-236-8560

MAS FUNDS

800-354-8185

MCM FUNDS

800-788-9485

MENTOR FUNDS

800-382-0016

MERRILL LYNCH GROUP

800-637-3863

METROPOLITAN WEST FUNDS

800-241-4671

MFS FAMILY OF FUNDS

800-637-2929

MONTGOMERY FUNDS

800-572-3863

J.P. MORGAN FUNDS

800-221-7930

MORGAN GRENFELL FUNDS

800-550-6426

MSDW FUNDS

800-869-3863

NATIONWIDE FUNDS

800-848-0920

NEUBERGER BERMAN FUNDS

800-877-9700

NEW ENGLAND FUND GROUP

800-225-7670

NICHOLAS GROUP

800-227-5987

NORTHEAST INVESTORS GROUP

800-225-6704

NORTHERN FUNDS

800-595-9111

NORTHSTAR FUNDS

800-595-7827

NUVEEN MUTUAL FUNDS

800-351-4100

OPPENHEIMER FUNDS

800-525-7048

PACIFIC HORIZON FUNDS

800-332-3863

PAINWEBBER MUTUAL FUNDS

800-647-1568

PARKSTONE GROUP

800-451-8377

PAYDEN & RYSEL INVESTMENT

GROUP

800-572-9336

PEGASUS FUNDS

800-688-3350

PHOENIX FUNDS

800-243-4361

PILGRIM GROUP

800-334-3444

PIMCO FUNDS

800-927-4648

PIONEER GROUP

800-225-6292

PREFERRED GROUP

800-662-4769

T. ROWE PRICE FUNDS

800-638-5660

PRINCIPAL MUTUAL FUNDS

800-451-5447

PRUDENTIAL MUTUAL FUNDS

800-225-1852

PUTNAM FUNDS

800-225-1581

REGIONS FUNDS

800-433-2829

ROCHESTER FUNDS

716-383-1300

SAFECO MUTUAL FUNDS

800-426-6730

SALOMON BROTHERS GROUP

800-725-6666

SCHWAB FUNDS

800-435-4000

SCUDDER FUNDS

800-225-2470

SEI FUNDS

800-342-5734

SELIGMAN GROUP

800-221-2783

SIT GROUP

800-332-5580

SMITH BARNEY GROUP

800-451-2010

SOUTHTRUST FUNDS

800-239-7470

SSGA FUNDS

800-647-7327

STAGECOACH FUNDS

800-222-8222

STAR FUNDS

800-677-3863

STATE STREET RESEARCH

800-882-0052

STEIN ROE MUTUAL FUND

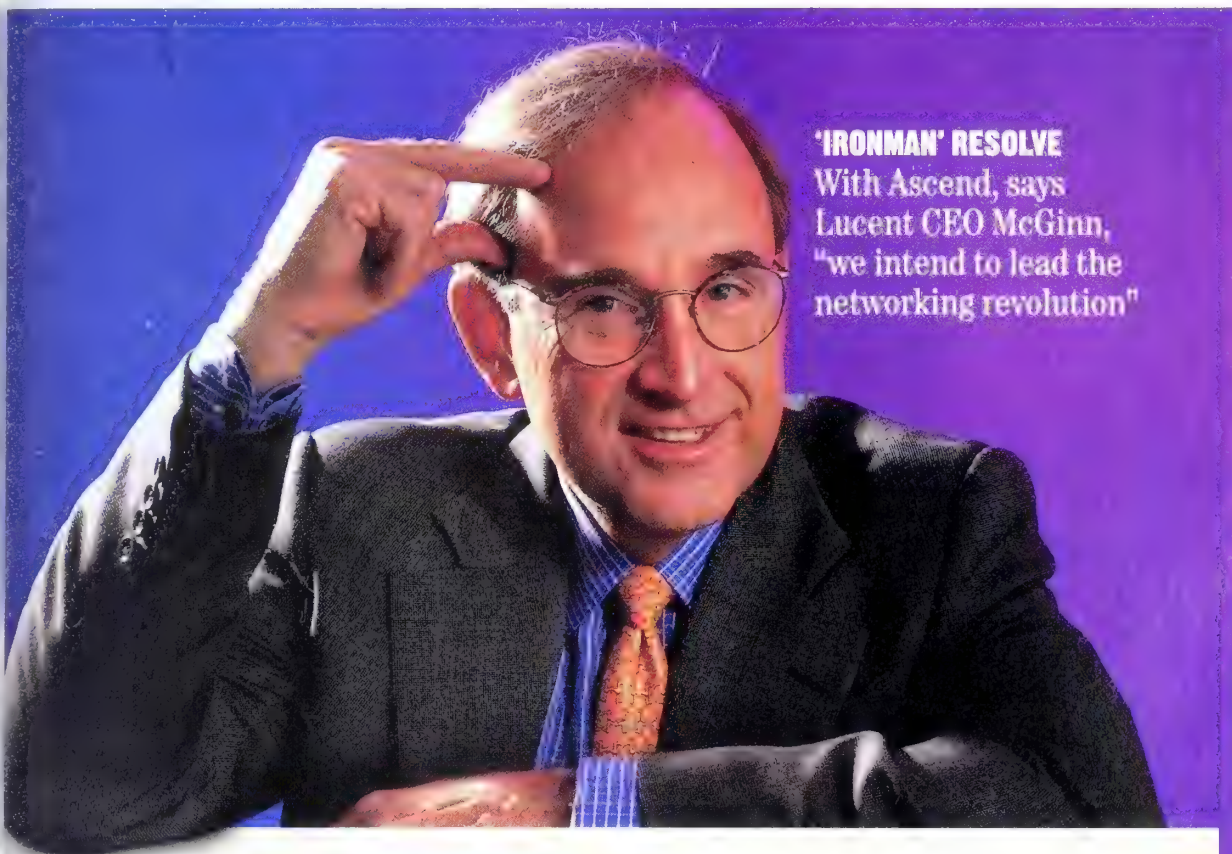
COMMUNICATIONS

LUCENT'S SCENT

be the phone-gear colossus for the Internet era?

Whether it's bushels of rabbits' feet or just good management, Lucent Technologies Inc. has led a charmed life. Since it was spun off from AT&T in 1996, it has been on a dizzying three-year streak, acting more like a Silicon Valley startup than a 123-year-old maker of phone equipment. Since Lucent went public, its shares soared from 13¢ to a high of 120 on Jan. 8. Meanwhile, the Standard & Poor's 500-stock index hasn't even doubled. Last year alone, Lucent nearly tripled shareholders' money, compared with a 29% return for the S&P 500. Says Mark Herskovitz, co-manager of the Dreyfus Technology Growth Fund, one of Lucent's largest shareholders: "The stock has been just a monster."

Until lately, that is. On Jan. 21, Lu-

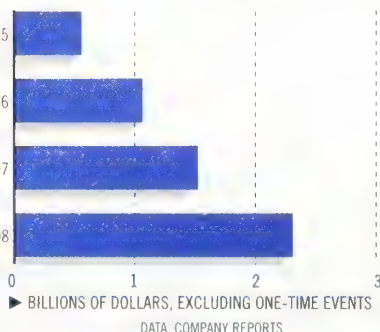


'IRONMAN' RESOLVE
With Ascend, says
Lucent CEO McGinn,
"we intend to lead the
networking revolution"

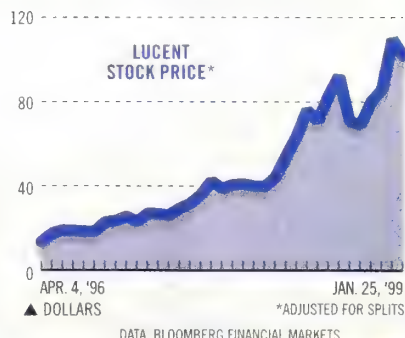
AS LUCENT'S SALES BOOM...



...AND PROFITS SURGE...



...THE STOCK SOARS



Information Technology

cent Chairman and CEO Richard A. McGinn reported that revenues for the first fiscal quarter had fallen well short of what Wall Street had forecast—even though profits were better than expected. Instead of \$10 billion in sales, Lucent chalked up \$9.2 billion. The news fueled worries that phone companies have begun to buy less gear from Lucent and others. Lucent's stock took a drubbing that day, down 7%, to 106.94, although it came back to close at 110 on Jan. 26.

And McGinn? Despite the revenue

To put that in perspective, consider this: No other \$30 billion company is growing 20% or more a year, according to S&P. To be sure, Silicon Valley arch-rival Cisco Systems Inc., the leading maker of this new digital networking gear, has been growing at a 35% clip—but Cisco is less than one-third Lucent's size. For McGinn to deliver on his pledge, Lucent must win \$6 billion in new business this year, while Cisco needs to add just half that to keep up its torrid pace.

what was widely considered a technology power by persuading employees to set aside their interferences and focus on beating the off rivals such as Cisco and Northern Telecom Ltd. He pushed staff to set sky-high goals for themselves—and then do whatever was necessary to accomplish them. The



CISCO SYSTEMS

REVENUES: \$8.5 billion

PROFITS: \$1.35 billion

MARKET CAP: \$162 billion

► The Silicon Valley powerhouse is No. 1 seller of corporate data switches and routers—specialized computers that direct traffic around the Internet and corporate networks. Now, Cisco is marketing aggressively to phone companies that want to build their own new networks that can handle data and voice. It has won key orders from startup phone companies such as Qwest Communications but has had a harder time selling to Baby Bells, which worry about reliability.

Duking It Out In the New World of Data Networks

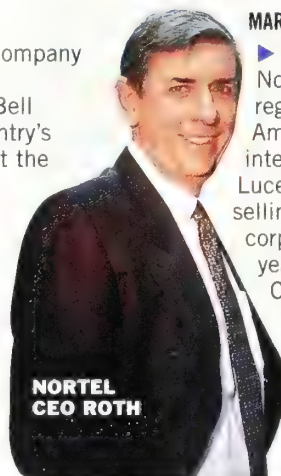
LUCENT TECHNOLOGIES

REVENUES: \$30.1 billion

PROFITS: \$970 million

MARKET CAP: \$134 billion

► The Murray Hill (N.J.) company grew up as the telephone-equipment maker for Ma Bell during its days as the country's phone monopoly, making it the No. 1 seller of standard phone gear. But Lucent is still just a bit player in the hot market for converged voice-and-data networks. That could change, though, with its \$20 billion purchase of Ascend, which has cutting-edge technology rivaling Cisco's.



**NORTEL
CEO ROTH**

NORTHERN TELECOM (NORTEL)

REVENUES: \$15.4 billion

PROFITS: \$829 million

MARKET CAP: \$36 billion

► The Canadian player is No. 2 to Lucent in sales of regular phone gear in North America. Nortel has a bigger international presence than Lucent and a stronger position selling data equipment to corporations—thanks to last year's \$9 billion acquisition of Cisco rival Bay Networks.

The merger has had a rocky start: Nortel warned of soft demand for its equipment last year and said it would cut 8,000 jobs in early January.

shortfall, he's feeling luckier than ever. He dismisses the notion that overall spending on telecom gear is slowing. Oh sure, big guys such as MCI WorldCom, Bell Atlantic, and BellSouth are paring back their capital expenditures. But purchases by telecom upstarts that are building whizzy Internet-like networks will make up the difference, he says. And thanks to Lucent's Jan. 13 deal to buy Ascend Communications Inc. for \$20 billion, McGinn thinks his company now has the cutting-edge technologies to land those new contracts. "We intend to lead the networking revolution," he says. "With Ascend, we will become the clear leader."

AMBITIOUS. Indeed, Ascend is crucial to McGinn's plan of transforming Lucent from the musty old maker of plain-vanilla phone gear into a colossus supplying the communications gear for the Internet era. He's so certain that Lucent is on the fast track that he vows the company's revenues, not counting Ascend, will hit \$36 billion this year, up from \$30.1 billion in 1998—an ambitious 20% increase.

Can McGinn do it? Despite his assurances, slowing demand for communications gear may trip him up. Several analysts insist that spending on telecom gear will drop from 15% growth in 1998 to just 5% this year. "Even Lucent's management can't really know [what spending will be]," says Jeffrey Heil, director of equity investments for the Regents of the University of California, a top Lucent shareholder. In the longer term, though, the Lucent-Ascend combo is a powerful one that could make the equipment supplier a leader in next-generation networks.

There's little doubt that the feisty 52-year-old McGinn revels in such challenges. His idea of relaxation is going head-to-head with friends in their own version of "Ironman" races—competing in swimming, billiards, golf, and basketball, all in one day. Once, rather than lose a fish he had hooked, he swam around a pier to untangle his line.

At Lucent, he's just as relentless. Since stepping up to the CEO post 15 months ago, McGinn has turned around

Lucent's sales are climbing twice as fast as before it became independent.

But this year, McGinn may find Ironman ways are put to the test. The telecom industry is entering a wrenching change, as old phone companies give way to digital gear that will be the underpinning of tomorrow's global communications. The rise of the Internet is at the heart of this upheaval. Its explosive traffic, coupled with the oodles of data that corporations are zapping between offices, demands speedy networks that can chop up information into bite-sized pieces that wing their way fast. **"IN OUR FAVOR."** What's more, the equipment is so efficient that it will eventually carry both data and voice traffic. Most phone companies are testing the gear for voice service, and a handful are offering it especially. That has made data-network equipment a \$45 billion market, up from just 10% of the total communications equipment market—but it's growing twice as fast as sales of standard

Intel Inside... ViewSonic® on top!

Turn traditional thinking on its ear.

Today, regardless of the PC brand you choose, the most important component is not the computer. It's the monitor.

Yesterday the hot phrase was "Monitor Sold Separately." Today, it's "PC Sold Separately." Technology blurs the lines between one computer and another. They're all fast, all loaded, all pretty much the same.

What's different, what's exciting is happening in displays—multimedia monitors with built-in teleconferencing capabilities and flat panel displays you can mount on the wall.

The new ViewSonic VG180, 18.1" viewable LCD ViewPanel™ is a case in point. It features a 160° viewing angle, a spectacular true resolution of 1,280 x 1,024, a rock solid image and amazing performance. By putting ViewSonic's VG180 ViewPanel on top of your priority list, you'll ensure your Visual Computing™ experience is excellent.

At ViewSonic we developed the VG180 with your vision in mind. TCO '95 certification. Warranty; 3 year parts and labor, one year back light. Express Exchange® Service option available.

**For more information call 800-888-8583
or visit our website at:
www.ViewSonic.com/busweek**

Copyright © 1999 ViewSonic Corporation • All rights reserved.
Corporate names and trademarks are property of their respective companies.
Intel and the Intel Inside logo are registered trademarks of Intel.



(PC Sold Separately)



www.ViewSonic.com

ment. So far, that has been a boon to Cisco, which dominates the U.S. market with a 55% share, vs. Lucent's piddling 2%, according to BancBoston Robertson Stephens analyst Paul Johnson. "I think the odds of Cisco leading the market are in our favor," says John T. Chambers, Cisco's CEO.

Not anymore, argues McGinn. With Ascend, McGinn believes Lucent has bought its way into the new digital future. Under CEO Mory Ejabat, the Alameda, Calif., company has developed products that are good enough to compete with Cisco's. When you combine Ascend's technology with Lucent's strong relationships with phone companies and its reputation for reliability, McGinn thinks he has the industry's odds-on front-runner. Others agree. "Of all the companies out there, Lucent is the one that's closest to the Holy Grail of offering customers a complete solution," says Mukesh Chatter, founder and CEO of Nexabit Networks Inc., a Marlborough (Mass.) startup.

The data market is so crucial to Lucent and its rivals that it reduces normally civil execs to snarling rivals. At a retreat for its top 60 executives last year outside Tucson, Lucent put up "Wanted" posters with the faces of Cisco's Chambers, Nortel CEO John A. Roth, and other executives from equipment makers. Chambers was not amused: "McGinn made it personal," he says. "It sent a bad message to his employees."

SHORT END? McGinn and Nortel's Roth are just as quick to sling barbs. McGinn ridicules Roth for saying that Nortel was buying Bay Networks Inc. to help sell new digital equipment to phone companies—and then backpedaling to say that Bay would instead sell to corporations, its traditional customer base. "At least, you should get your message consistent," he snaps. As for Roth, he criticizes McGinn's purchase of Ascend as buying the wrong digital technology at a sky-high price. "Twenty billion later, Lucent still needs to go shopping," he says.

Indeed, technologically, McGinn may yet find himself on the short end of the stick. What Lucent is buying in Ascend is the top maker of phone switches that

use a technology called asynchronous transfer mode (ATM). This is the first generation of the technology that most phone companies are using to carry both voice and data traffic. But over time, carriers are itching to move beyond ATM to a technology called Internet protocol (IP). Just like it sounds, this is what's used on the Net. Most phone companies don't think IP is reliable enough

Nobel prize-winning technology history of supplying the country's monopoly made Lucent the operator of scrappy successes like Cisco. Engineers emphasized bulletproof reliability instead of rapid innovation, often took years to develop a product and tended to work on what their customers—wanted. This is, after all, the company that became

for a variation on Ford's old saw: "You can have any color phone you want as long as it's black."

Times have changed. A galvanizing moment came when McGinn sat down with his top 15 execs at the Inn in Bernardsville, Pa., and told them Lucent's strategy was "the chance of a lifetime to create the kind of company they had always wanted. When it had been beside AT&T, the only exception was that the unit should increase its profits 10% a year."

AIMING HIGH. The executives studied how the best companies of that time—IBM Inc. and Hewlett-Packard—had achieved preeminence. With McGinn guiding the execs, the conclusion would have to meet a conscious goal: increasing revenue twice as fast as the past. "You couldn't make the change in energy," Henry B. Schacht, the Cummins Engine Co. who was brought in by Lucent during the spin-off, says that McGinn could have ropes of running a public company. "Rich gets paid, have expectations of ourselves that are greater than what they would have on their own," adds Schacht.

And not just in the executive suite. McGinn has been instrumental in revitalizing Lucent Labs. Just before Lucent's spin-off, according to Schacht, McGinn took a team of 300 scientists: "You are owned by the research." He also linked their research directly to Lucent's fortunes. The start out at 1% of sales—and a 10% increase in Lucent's revenue research budget would rise 10% set up an internal venture-capital fund so that scientists could get to start their own businesses—either been funded. "We went from one patent a day to three patents

LUCENT BUYS INTO THE FUTURE

In the past two years, Lucent has gone on a buying spree, snatching up 14 companies with key market positions or technologies. Here's a sampling:

COMPANY ACQUISITION DATE	PRICE	WHAT IT DOES
VOICE SYSTEMS		
OCTEL COMMUNICATIONS July '97	\$1.8 billion	The leading maker of voice-mail systems teams up with the top rival to its own market.
DATA NETWORKING		
YURIE SYSTEMS April '98	\$1.06 billion	A startup maker of data switches aimed at smaller networks, but it hasn't made big inroads yet.
LIVINGSTON ENTERPRISES October '97	\$610 million	A rival to Ascend and 3Com in Net access gear. Hasn't gained much market share to date.
PROMINET December '97	\$164 million	One of a dozen pioneers in fast switches for corporate networks.
ASCEND COMMUNICATIONS January '99	\$19.7 billion	The No. 1 seller of Net access gear and high-octane data switches for the Internet.
SOFTWARE		
KENAN SYSTEMS January, '99	\$1.48 billion	A provider of advanced billing and customer care software.

for voice calls now—but it's getting better every day. The problem for Lucent: Cisco holds 67% of the IP market, while Lucent is a tiny blip on the radar screen. "Even after Ascend, they still have a lot of work to do," says BancBoston's Johnson.

Navigating such digital divides may prove to be as tough for McGinn as what he went through overhauling Lucent. For decades, the business that is now Lucent had been the sleepy maker of phone equipment for AT&T. It included the vaunted Bell Laboratories and its

In 1998
while striving to
impress our
customers
we happened to
impress
the entire industry

P u t a w i n n e r t o w o r k f o r y o u

Sprint is proud to be named the Data Carrier of Choice in the 1998 *Data Communications* User Survey. We also took top honors for IP Access, Customer Service, and Frame Relay. What's more, we were given the highest ranking for Internet reliability and a Tester's Choice Award in *Data Comm's* 1998 ISP Backbone test. And we were awarded Best Information Technology of the Year by the Silicon Prairie Technology Association for Sprint ION,SM our integrated on-demand network.

We'd like to thank our customers for a great year in 1998, and this year
we think you'll be even more impressed with us.

www.sprint.com/data



We help your business do more business.

within the first calendar year," says Schacht.

The approach is paying off. In 1997, tiny Ciena Corp. clobbered Lucent with a new optical networking product that greatly increased the capacity of long-distance networks. Bell Labs' engineers scrambled to come up with a competing product—and delivered it to customers last September, in just 12 months. "We didn't even have a market position a year ago," says Daniel C. Stanzione, co-chief operating officer and president of Bell Labs. And McGinn's recent spate of purchases sends a signal, too: If Bell Labs doesn't come up with vital technology, Lucent will go out and buy it.

At first blush, it seems odd that McGinn is the one shaking up Lucent, given that he worked at AT&T for 27 years. But he was always something of an outsider. Instead of working in AT&T's core phone business, he labored in international operations, ran its computer unit, and moved to the equipment-making division in 1991.

He was known for his outspoken views in the hushed suites where radical views were largely unwelcome. McGinn, for example, objected strongly to AT&T's disastrous 1991 acquisition of NCR Corp., and he pushed for years for the Lucent spin-off. "He was always part of the outside renegade culture at AT&T," says David A. Nadler, a friend of McGinn and chairman of the telecom industry's Delta Consulting Group Inc.

McGinn's business sense surfaced at an early age. When the New Jersey native arrived at Iowa's Grinnell College in 1964, he set up a late-night snack service operating from his dorm room so students and professors could buy sandwiches after the stores had closed. McGinn jokes that he "had a positive cash flow" by the end of his first year.

PLAIN FOLKS. McGinn still seems more entrepreneurial than wing-tip corporate. He's "Rich" to everyone at Lucent, and he fetches his own lunch from the cafeteria. He favors black mock-turtlenecks over collars and ties. "Ties restrict blood flow to the brain," he says. And he says his idols are Dell Computer Corp.'s Michael S. Dell and Nelson Mandela. Indeed, McGinn pushed for Lucent to give \$5 million to improve graduation rates at the predominantly African American Malcolm X Shabazz High School in Newark, N.J. McGinn also has little tol-

erance for those who think technology developments begin and end in Silicon Valley. At a recent speech in the Valley, he thanked the organizers "for getting me a visa" so he could visit.

What drives McGinn more than anything is his need to win. Ben J.M. Verwaayen, co-chief operating officer, recalls how McGinn reacted the first time he told the CEO that Lucent had lost what was a very small piece of business. "He turned gray," Verwaayen says. "It was like somebody had hit him



in the stomach." Verwaayen tried to reassure McGinn. "You win some, you lose some," he told his boss. But McGinn would not be consoled. "I don't want anyone here to be a good loser," he snapped. "We are winners."

McGinn won't settle for anything less. He has told analysts that he expects to grow 2% to 5% faster than the industry average. How will Lucent reach that mark? By luring business away from rivals while expanding overseas and focusing on the fastest-growing markets. Besides data networking, that means Lucent must sell loads more wireless equipment, optical-networking gear, services, and software. "We're not exactly limited by opportunity," McGinn says, pointing out that Lucent may be the No. 1 equipment maker but still has less than 10% of the \$400 billion worldwide market.

If McGinn's tactics of the past few years are any indication, he may yet out-

fox his rivals. For one thing, Lucent executives don't just listen to customers; they pepper them with questions, then deliver the goods they need. Last year, that helped Lucent elbow its way further into the wireless market. It won a contract from PrimeCo, a top U.S. military communications company, after its equipment for Motorola had quality problems. "There's a lot of time thinking about how to make life easier for us," says Lowell McMillan, PrimeCo's CEO. Overall, Lucent

HAND IN HAND

Critics say McGinn's Ascend's Ejabat may not yet have quite the right mix of technol-

30% of the U.S. wireless market, up from 25% three years ago, estimates Salomon Smith Barney analyst Alex C.

With the Ascend acquisition, McGinn is betting that Lucent can make the same kind of move in the data-networking market. Clearly, Ascend's tried-and-true ATM technology will help Lucent win over big phone companies nervous about the lesser IP technology promoted by Cisco and Nortel. But Ascend may not be the answer for the network com cowboys cropping up in deregulation. For example, ICG Communications in Greenwood, Colo., decided to offer voice service on an IP network it asked Lucent to dem-

its equipment. "It didn't make sense," says Robert Flood, ICG's technical officer. Instead, Cisco's contract, estimated at \$5 million, says Lucent will eventually become an IP company, such as Juniper Networks or Nexabit Networks.

While McGinn vows to improve Lucent's technology, he has more immediate concerns. He managed to calm investors over Lucent's first-quarter shock by making hefty promises for the second quarter and fiscal year ending in May. A good chunk of Lucent's market is riding on whether he can meet them. "He has called the corner pockets," says Johnson. "Just winning the game is enough. He has to win the way we do. With Ascend in hand, McGinn is betting he has the winning shot laid out."

By Peter Elstrom in Murfreesboro, N.J., with Andy Reinhardt in San Mateo, Calif.

**Who's the
only Big Five
firm among
FORTUNE's top
ten companies
to work for
in America?**

the answer is

**Deloitte &
Touche**

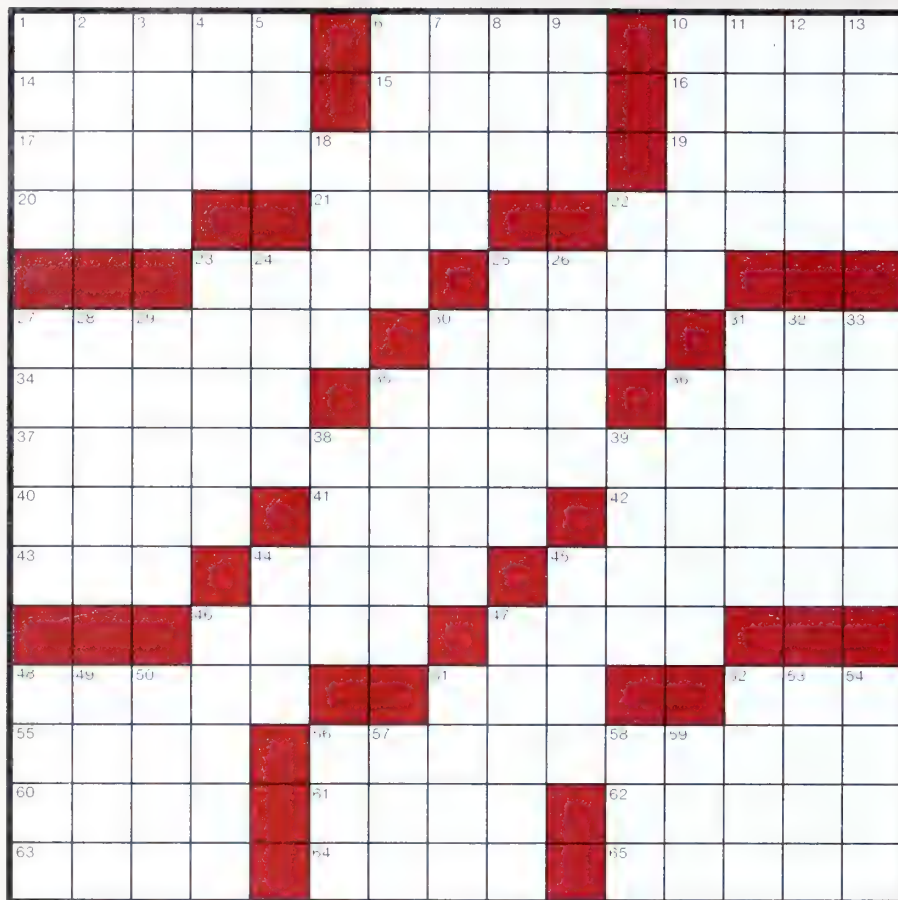


©1999 Deloitte & Touche LLP and Deloitte Consulting LLC. Deloitte & Touche refers to Deloitte & Touche LLP, Deloitte Consulting LLC and related entities.

www.us.deloitte.com

Mixing Business with Pleasure by Lincoln

Puzzle #7



ACROSS

1. One of the Rockefellers
6. __-Cola
10. De __ (according to law)
14. State a point of view
15. Change for a five
16. On __ with (equivalent to)
17. New "electronic paperback"
19. The first video game
20. Imitate
21. Make a mistake
22. "The Millionaire Next Door" coauthor
23. On a cruise, perhaps
25. Size of new TV sets
27. barnesandnoble.com competitor

30. Search for bargains
31. Computerized message service: Abbr.
34. Part of a Wall Streeter's compensation
35. CNN anchor
36. Land-subdivision map
37. Controversial drug taken by Mark McGwire
40. Dried up
41. "Die __" (German newspaper)
42. Vacation purpose, for short
43. CBS logo
44. Catch red-handed
45. Where the world's priciest office space is
46. Former European capital

47. Payment misser's risk
48. "Damn the tuxedos, full speed __" (see page at right)
51. Mercury, for one
52. What yachts are called
55. Bank (on)
56. Canadian rail car maker
60. Inexperienced one
61. Billion-selling brand name
62. Part of DAT
63. Texaco symbol
64. Shipped out
65. Jury members

DOWN

1. Mrs. David Copperfield
2. Each

3. Word before president chairman
4. Printer's purchase
5. Unenviable grade
6. Federal law re termination employees
7. __ close to schedule
8. Title for Gates
9. Bid's opposite
10. Toshiba's home
11. Well-briefed about
12. Relative position
13. Therefore
18. Market with high degree of spending power
22. Slight decrease, as in stock prices
23. Sky color
24. Mediocre
25. Hammarskjöld's successor
26. Sewing-machine invention
27. Belittle
28. Bucks
29. Benedict Arnold co-conspirator
30. Partner of Royal Dutch
31. Fair-haired
32. Monopoly railroad
33. NBA commissioner
35. Nixon economic advisor
36. Steinway sale
38. Gloria Vanderbilt logo
39. Central depository
44. Silent approval
45. Helen of Troy's mother
46. German chemical giant
47. Assembly-line worker
48. Some traders, for short
49. Fervor
50. Exile isle for Napoleon
51. Federal agents
52. Aspect
53. One with will power?
54. Piccadilly Circus statue
56. Logan Airport, on Long Island
57. Silver source
58. Criticize
59. __ diligence

For answers to this puzzle:

Turn to page 128 in this week's issue of Business Week or visit Mixing Business with Pleasure by Lincoln on www.businessweek.com (URL: www.businessweek.com/adsection/puzzlesbylincoln/index.htm)

Puzzle created by: Stanley Newman.



LINCOLN

www.lincolnvehicles.com

...n the tuxedos, full speed ahead.



...optional but a 300-horsepower V-8 is standard in the world's most powerful luxury SUV.* There's room for seven in three rows of leather-seats. And up to 8,850 pounds towing capacity. Call 800 446-8888, visit www.lincolnvehicles.com or see an authorized Lincoln Navigator dealer.

*models built after 12/8/98

Lincoln Navigator. What a luxury [] should be.

EDITED BY AMY DUNKIN

ALL THE WORLD'S AN AUCTION

Before the era of the World Wide Web, author and antiques collector David Maloney had to search far and wide to find a 1950s cut-crystal Val St. Lambert pitcher. No one in his home town of Frederick, Md., carries fancy glassware, he says, "and I would spend days driving around to yard sales and little shops." Recently, though, Maloney logged on to the Net and in only 15 seconds, found a store in Pennsylvania that carries 40 styles of his coveted crystal.

Whether you collect glassware, home-run baseballs, or Ming vases, you no longer need to travel to far-flung antiques fairs or pore over

trade magazines to add to your trove. The world of collectibles is expanding onto the Web at a geometric rate, bringing unprecedented efficiency and convenience to a fragmented market. The explosion of online collecting and the success of the biggest auction site, eBay, prompted Guernsey's Auction House to open the bidding for Mark McGwire's 70th home run baseball to online buyers as well as those in the salesroom (it went for \$3 mil-

lion, to an anonymous phone bidder). And Sotheby's plans to set up shop on the Net for goods under \$5,000 (BW—Feb. 1).

It's easy to see why the Web has such appeal. Buyers can target obscure items with a few keystrokes, and sellers can reach a much larger, more varied market. Of course, online buyers can't kick the tires or size up dealers face to face. But so far, fraud is rare, and preventive measures are increasing.

Although you can find antique armoires and vintage cars, dealers say the Net is best suited to smaller items, such as books, coins, stamps, buttons, and textiles that can be easily scanned for

viewing and shipped by mail. There are three basic ways to go about collecting online, says Maloney, author of *Maloney's Antiques and Collectibles Resource Directory* (Antique Trader Publications, \$28.95). You can seek out specialty boutiques, such as Auntie-Dot-Com (www.auntie.com) for leads on dolls; go to auction houses such as Auction Universe; or visit virtual malls such as Buy Collectibles.com (table).

Prices aren't necessarily

cheaper on the Web, but it's much easier to compare them, and most sites don't charge a buyer's commission. To purchase an early edition of Mark Twain's *The Adventures of Tom Sawyer*, for example, use a specialty search engine, such as www.bibliofind.com, to view descriptions of dealers' inventories. The site will provide details on the condition, publisher, and price of the book. Most editions of *Tom Sawyer* published in the 20th century sell for about \$10. But a first British edition from 1898 lists for \$350.

Since the Net has opened up a wider market, items that probably wouldn't sell at a local antiques show can find an appropriate home. Rick Brown, president

of Newspaper Collectors' Society of America (www.nybuff.com), holds several online auctions of "ephemera," as old papers are called. He recently sold a 19th century receipt from a drugstore in Canton, Mass., for \$100. Cantonites setting up a historical society. "They wouldn't normally have us because they were ephemera collectors," he says. Likewise, a 1903 bicycle catalog from France would have languished in a U.S. antiques shop. French enthusiasts snapped it up online for \$28.

Indeed, the Net's geographical reach can find bargains. "Amélie in Germany sells for less than in New York," says British silver dealer in France, says Corbellis, CEO of active Collectors' don-based site to established auction do business. The net is also opening exclusive world shoppers. Info Collector provides to about 150 auction

YOUR LIFE COLLECTING

Where To Bid Online

NAME	ADDRESS	COMMENTS
AUCTION UNIVERSE	www.auctionuniverse.com	Online auction house
BUY COLLECTIBLES	www.buycollectibles.com	Searchable database
COLLECTOR ONLINE	www.collectoronline.com	Matches buyers and sellers
EBAY	www.ebay.com	Web's biggest auctioneer
INTERACTIVE COLLECTOR	www.icollector.com	International dealers



FELIX THE CAT: BATH BOTTLE, 1998



000 catalogs for free. ector would spend o \$100,000 a year to our catalogs in the ys Corsellis. "People e on the site can see what pieces cost, and doesn't have to be ensive."

irtual collecting has ks. Buyers can't ex- jects for flaws or rks. Many knowl- e old-time dealers computer literate, me collectors prefer of hunting in out-of- junk shops. "The av- erson still wants to feel the antiques," ry Kovel, author of *Antiques & Col- Price List* (Crown ing Group, \$14.95). ful lot of antiques es are emotional—be- omeone walks into a d sees an object they a kid."

FRAUD. A more seri- ern, perhaps, is the risk of buying online ou don't know who's your cash or credit- mber. Ephemera col- Brown lost \$400 on hen a piece of United ternational wire-ser- oy recounting Presi-

dent Kennedy's assassination proved to be a photocopy. He says eBay advised him to post negative comments about the seller, who did not return his E-mails.

Site managers attempt to protect buyers from this sort of electronic highway robbery. Online malls police the

"store" owners, who are responsible for the goods they sell. Interactive Collector tries to assure consumer confidence by dealing exclusively with well-established auctioneers, such as Phillips in London and Blomqvist in Oslo. The site also requires bidders to identify themselves by credit card to avoid "shilling," when vendors employ friends or other confederates using the owner's account number to bid up prices on their goods.

eBay is constantly updating security, says Steve Westly, vice-president for marketing and business development. The company recently said it will provide \$200 in free insurance per transaction to cover problems on smaller items. It recommends that people set aside payment in escrow for larger goods until they're delivered.

Fraud victims have little recourse after a sale if they can't reach the dealer except to fight purchases through credit-card companies or alert postal inspectors if transactions were done by U.S. mail. So you should take precau-

tions before you buy. The best offense is knowing a lot about what you want, says Ellen Schroy, editor of *Warman's Antiques And Their Prices* (Krause Publishing; \$10.95). "If you find a piece of Depression glass in a color that it wasn't usually made in, you have to determine if it's really rare or a reproduction."

Maloney advises people to join collectors' groups in their communities and online for camaraderie and safety. Buyers can get advice about dealers or items of interest. When possible, view the object in person or at least talk to the dealer by phone before buying. Ask detailed questions about condition. Work out shipping costs beforehand, and don't buy if the dealer doesn't have a reasonable return policy.

While the security risks of online collecting grab headlines, Kovel says fraud has been negligible. Collectors do take gambles, but for many happy hunters, the increased selection and convenience of shopping the Web is far outweighing its dangers. Pam Black

SURFING FOR BOOMERABILIA

Remember those Beatles albums and peace buttons you used to own? That Lamb Chop hand puppet? You can buy them back and relive your youth via the Internet.

Baby boomers moving into their middle years are flocking to the Web in search of memorabilia. Boomerabilia include artifacts from the end of World War II through the early 1970s and emphasizes TV. Looking to buy or sell a *Captain Kangaroo* doll or a Batmobile? How about a *Beverly Hillbillies* car or a Herman Munster puppet? You can find it online.

Most shoppers head for general-auction and collectibles sites, such as eBay and CSM Online (www.csmonline.com). But some sites specialize. Items in their original packaging fetch the most. A WHAM-O hula hoop from the '60s that sold for about \$1 can command



MADE-IN-TAIWAN
BATMOBILE, 1970s

up to \$100 with the original price tag.

A Samantha doll from the sitcom *Bewitched*, featured in Toy Scouts' (www.toyscouts.com) third annual TV and movie auction last fall, sold for \$4,296. Other hot items: a *Lost in Space* robot (\$1,210), a Dick Clark doll (\$634), and a Ben Casey pillowcase (\$110). At Time Warp Toys & Collectibles (www.time-warp-toys.com), you'll find cowboys, vehicles, rock 'n' roll, and sports items. And at Sentimental Journeys (www.sentimental-journeys.com), nostalgia buffs can find the album *Vince Edwards Sings* for \$10 (from the actor who played Ben Casey) and a *The Man from U.N.C.L.E.* coloring book for \$35. Whether it's lunchboxes or Barbie dolls, "American culture from the '50s and '60s is in demand all over the world," says Jane Sorensohn-Kahn, a Barbie collector who writes for *Toy Trader* magazine. With the Net, finding boomer kitsch is a snap. Pam Black

A SAFE HOME FOR YOUR NEST EGG

When it comes to investing, who doesn't like a sure thing? That's the appeal

of stable value funds, which aim for a constant asset value and pay a predictable annual rate of return—currently averaging 6.45%.

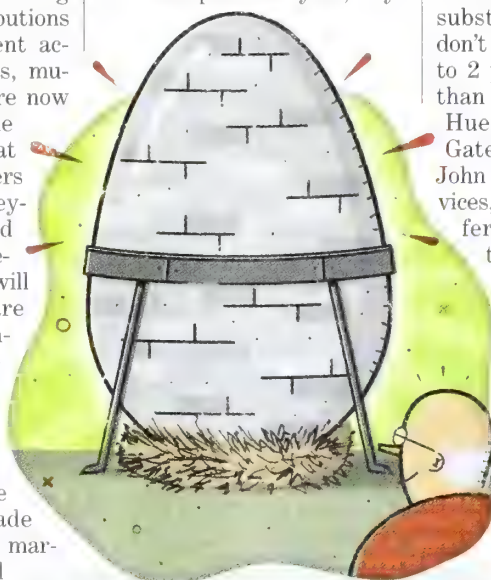
Until December, the only way you could get a stable value fund was if your employer offered one in a retirement or profit-sharing plan. But with contributions to individual retirement accounts at record highs, mutual-fund companies are now lining up to offer stable value investments that accept IRA cash. Bankers Trust has one, and Dreyfus, Oppenheimer, and Morley Capital Management, among others, will soon. The funds are closed to regular investors the management companies want to avoid because they can take their money and run at any time. But "ultimately, these products will be made available to the retail market," says Karl Tourville, whose Galliard Capital Management in Minneapolis is preparing to offer one.

Stable value funds used to invest only in guaranteed investment contracts (GICs), which are promises by insurance companies to repay principal plus a fixed interest rate by a specified date. Now, they also buy government bonds and high-quality asset-backed securities and corporate bonds, says Robert McCormish, whose Drey-

fus Retirement Income fund hopes to accept IRA money by spring.

What provides the stability? An insurance policy, or "wrapper." Purchased from a bank or insurer, it protects investors' principal and locks in a return. Because stable value funds replace maturing investments with new ones bearing slightly different interest rates, investors' returns can fluctuate, though rarely by more than 10 basis points a year, says

YOUR MONEY MUTUAL FUNDS



The Lowdown On Stable Value Funds

OBJECTIVE Preserve principal and earn a stable rate of return. Their current average yield is 6.45%.

PORTFOLIO Funds own high-quality asset-backed securities, corporate bonds, U.S. Treasuries.

RETURN Funds have returned 7.19% annually over the past 10 years, vs. 5.28% for money market funds and 8.45% for taxable bond funds.

DATA: MORNINGSTAR INC., HUELER COS., IBC FINANCIAL DATA INC.

Kelli Hustad Hueler, whose Hueler Cos. in Minneapolis tracks about 18,000 stable value instruments. That predictability made stable value the top choice of 401(k) investors pulling money out of stocks on Aug. 31, when the market lost nearly 513 points, says benefits consultant Hewitt Associates. Although the concept's popularity has suffered since a few insurers—and the GICs they backed—went under in the early '90s, stable value still accounts for 16% of the more than \$1 trillion in 401(k) plans, says Spectrem Group. To guard against a bust, look for average credit ratings of AA or better on both a fund's holdings and the companies insuring them.

Stable value funds are no substitute for stocks—they don't grow. But they earn 1.5 to 2 percentage points more than money-market funds, Hueler says. And Wayne Gates, general director at John Hancock Financial Services, maintains that they offer better diversification than bonds, which are more likely to rise and fall with stocks. He says investors who replace bonds with less volatile stable value funds can devote more of a portfolio to stocks without increasing overall risk levels. Over the past decade, Hueler's stable value index even comes close to the returns on taxable U.S. bond funds.

The price 401(k) investors pay for stable value is restrictions on transferring assets into money-market funds. For IRA holders, the downsides are stiff redemption fees and expense ratios that average 1% a year, vs. 0.3% for 401(k) plans. But if the concept proves as popular for IRAs as it is with 401(k)s, those expenses should fall as competition grows. *Anne Tergesen*

FUND WATCH

■ *Bearish on corporate profits in 1998, growth stock picker Foster Friess gave investors the \$5 billion Brandwine Fund a year to forget. His untimely moves out of and into the market resulted in a 0.7% loss, vs. rivals' average gain of 18%. But through Jan. 22, the fund was up 3.3%, vs. a 4.1% decline for the Standard & Poor's MidCap Index. Senior Writer Robert Barker spoke with*

Q: *How's business?*
A: Great, now that back on track. The findings of the other funds that exceed [our] large portion of the investments are Net. Our philosophy is oriented toward companies three years of profitability and more modest price-earnings ratios.

Q: *So what's working?*
A: Nokia is one. Sun Microsystems would be other. Also EMC, Tynternational, Dayton Hudson, 3Com, Gap, Tellabs, Seagate.

Q: *If your typical [investor] is trading at 19 times your estimate 1999 earnings, what average rate of earnings growth do you expect?*
A: The average is 10%.

Q: *Where do you find those companies?*
A: Telecommunications in the broad sense—there's still almost half of investments. Also re-

For an expanded version visit www.businessweek.com/ or AOL, keyword: BW



Why does the moon
stay in the sky?

What makes
the stars twinkle?

How does
the Internet work?

Actually, it works very well. Maybe because so much of it runs on Compaq. Four out of the five most popular Web sites are powered by Compaq. Hundreds of millions of hits are handled by Compaq platforms every

Three-quarters of the top ISPs have standardized on Compaq
neir Windows NT[®] based Web hosting. And if you've ever
ved e-mail, chances are, we helped get it to you. To find out
the Internet can help grow your business, feel free to ask the
ce at 1-800-AT-COMPAQ. Or visit www.compaq.com/moon.

COMPAQ Better answers.[™]

©1998 Compaq Computer Corporation. All rights reserved. Compaq is registered in the U.S. Patent and Trademark Office. Other names may be trademarks of their respective owners. Microsoft, Windows NT, and the Windows logo are registered trademarks of Microsoft Corporation. All other names and trademarks are the property of their respective owners.

FOR AD RATES AND INFORMATION
PHONE: (312) 464-0600
FAX: (312) 464-0610 OR WRITE

BusinessWeek

MARKETPLACE

BUSINESS WEEK MARKETPLACE
500 NORTH MICHIGAN AVENUE, SUITE 200
CHICAGO, IL 60611

Corporate Gifts

Logo Tattoos!



**1000 Temporary Tattoos with your Logo,
Just \$189.00!!**
plus \$10.00 S&H (CA add 7.25% sales tax)
Customized! Full Color! 2" x 2"

Calico

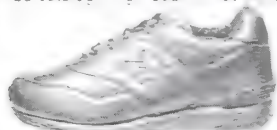
3000 Alamo Drive, Ste 204 • Vacaville, CA 94907
Tel: 707/448-7072 • Fax: 707/448-8273

Men's Footwear

MEN'S WIDE SHOES

EEE.EEEEEE. SIZES 5-13

FREE 100% slip-on high quality 100% leather



HITCHCOCK SHOES, INC.

Trademarks

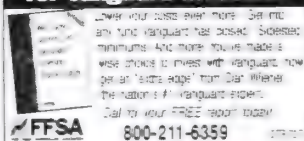
TRADEMARKS

- Trademark by Phone
- Protect your logo, slogan or business name
- Attorney owned/operated

800-67-TRADEMARK

Vanguard Investors

FREE Special Report for Vanguard Investors



Lower your costs even more. Get into any fund Vanguard has posed. Selected minimums. And more. You've made a wise choice to invest with Vanguard. Now get an "extra edge" from Dan Wheeler, the nation's #1 Vanguard expert. Call for your FREE report today!
800-211-6359

Business Services

RESEARCH REPORTS

80,000 ACADEMIC TOPICS AVAILABLE
Save \$0.10 to \$1.00 per page
Research Assistance
TOLL FREE HOTLINE: 800-361-0000
<http://www.research-assistance.com>

INCORPORATE

- FREE information
- All U.S. States and Overseas
- Attorney owned/operated

www.corporateinc.com

1-800-672-9110

TRADEMARK

**CALL NOW
SAVE 30% to 50%**

BUSINESS AND COMPUTER CHECKS

Ordering is easy
just click us and check out! Call
Designer Checks

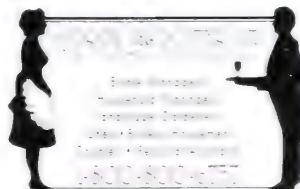
1-800-239-4087 ext.29

Fax: 1-800-774-1118

www.designerchecks.com

100% Satisfaction Guaranteed

Upscale Household Services



Publishing Services

Publish Your Book

17-year tradition of quality. National book publisher offers publishing services for over 400 titles. Plus free Audio Book Drive into Romanov-BW. All SmartStart Publishers. BA or past 1st time authors.

Business For Sale

UNIQUE ANTIQUE 1954 WORKING GRAIN ELEVATOR

All wood construction on 3/4 acre in hunting/fishing haven in western Montana. Only \$499,000.00. Serious inquiries only. No agents please. Call

406-826-5775

Franchising

ARE YOU SITTING ON A GOLD MINE?

Franchise it.

CALL 1-800-372-6244

Call to us first. Because nobody has franchised quite our business: Road Franchise.

The leader in franchise development and marketing. Worldwide.

francorp



To Success

It's time you were here...
let Shred-it show you how.

Shred-it

Shred-it

Shred-it

Shred-it

Shred-it

Doug Warren
905-855-2856 Ext. 201
Burlington, Ontario

Business Oppor

MAKE MONEY BUSINESS FIN CONSULTA

Chicago Business Center
Largest team \$1.1M to \$1.5M
Business. Work directly with
business. Unlimited earnings
potential. Free 45 minute
video seminar and
information packet
CALL 1-800-336
The Best Corporate

OFFSHO

- ♦ Companies (800)
 - ♦ Banking
 - ♦ Credit Cards
 - ♦ Privacy
- (800) 551-2141 Univ
New York, NY

Business Soft

MAIL ORDERS • WE PHONE ORD

Mail orders and phone orders
are available for all products.
All products are in stock and ready
to ship. No waiting.

Venture Cap

Corporate Inv Seeking To I

emerging companies
media, consumer p
and branded ser
Please fax summary id
to 203-328-2394
bussplan@ix.neto

Financial Ser

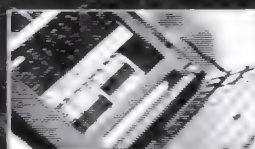
\$7,500 to \$9
www.instant-appro

6.00% to 12
No Credit Check - 72 hr Suc
100K to 5 mil. 5.9% - 8.99%
with compensating balanc
1-888-745-6752 e

Trade Online w/Signal

the real-time money-making machine!

- Stocks
- Futures
- Options
- Streaming Internet Delivery
- Free Nasdaq Level II
- Forex
- News
- Charting
- Historical Data
- Pager/cell phone alerts



Sign-up online today at:
www.dbc.com/bw
or call 888.200.1016 x140L

AD RATES AND INFORMATION
PHONE: (312) 464-0500
X: (312) 464-0512 OR WRITE:

BusinessWeek

MARKETPLACE

BUSINESS WEEK MARKETPLACE
500 NORTH MICHIGAN AVENUE, SUITE 2010
CHICAGO, IL 60611

Education/Instruction

ANTICELLO UNIVERSITY
Online's MBA & JD
Accredited
Master, Bachelor.
anticello.edu
3-661-9414
105-7935

DISTANCE LEARNING
University offers accredited MBA, no
needed. Chosen by Economist
as one of world's best MBA programs.
ANTICELLO UNIVERSITY (800) MBA-0707
Instructor: Ask for ext. 20
Suite 2, El Cerrito, CA 94530
Request literature: from your
name, call (510) 486-8900.

Education/Instruction

Learning Strategy
to the Next Level
Leicester University
Knowledge
distance class faculty at Leicester
University Centre - a world leader
in learning.
ed
nter
& qualifications considered
Association of Business Schools
the Association of MBAs
Royal Charter.
tion and a free brochure.
4-5844 or e-mail
Visit the university's
web site.
rai

Equipment

CD COPIER
\$1695
by Princeton Disc
426-0247

Financial Services

to \$500,000
and your business
loan that is
guaranteed by the Govt.
business-capital.org
-6756 Ext 8006

**AWARD WINNING
DISTANCE
EDUCATION**
MBA & MS Degrees
Executive Education



800.441.4746

www.isimu.edu

Accredited by the
Distance Education Training Council

**The Leader in Distance
Learning for 20 Years**

•Associate•Bachelor•Master•Doctor
Business (Mgmt, HRM, Health Care)
Management of Technology,
Psychology, Law

**Southern California University
for Professional Studies**

1840 E 17th St BW, Santa Ana, CA 92705
800-477-2254 www.scups.edu

Education/Instruction

GET THE EDGE!


**COLUMBIA
BUSINESS
SCHOOL**

Columbia Executive Education
Learning that powers performance.™

UPCOMING COURSES

Finance and Accounting for the Nonfinancial Executive
(Mar 21 - 26) (Jun 13 - 18)

The Transition to General Management
(Apr 18 - 30) (Oct 31 - Nov 12)

Emerging Leader Development Program
(Mar 14 - 19) (Dec 12 - 17)

For more information on these and other programs:
Call 212-854-3395 ext. 64

Visit our web site at: www.columbia.edu/cu/business/execed

Aviation/Fractional Ownership



FLEXJET

It's your TIME, INVEST IT *wisely.*

Our Flexjet Fractional Ownership program lets you buy a piece of a Learjet or Challenger business jet for as little as \$175,000*. So you can invest the time you currently spend waiting to fly in something a little more profitable... like taking care of business.

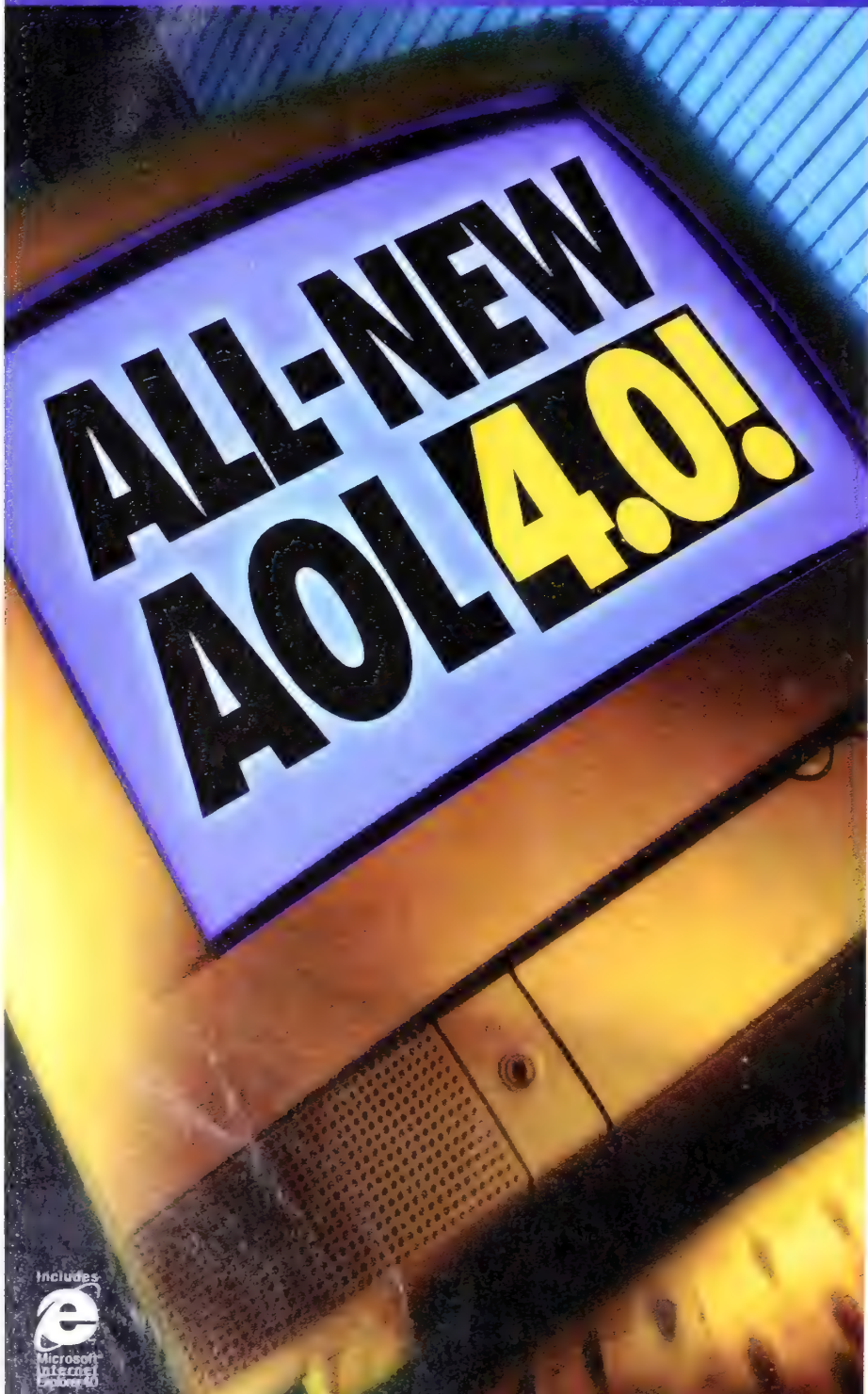
To learn more, call **1-800-FLEXJET** (353-9538). We're ready when you are.

**BOMBARDIER
AEROSPACE**

* Estimated annual after-tax cost of ownership (500 occupied hours over five years) in a Learjet 31A. Conditions apply.



THE EASIEST INTERNET ONLINE SERVICE JUST GOT EASIER



**ALL-NEW
AOL 4.0!**

The all-new version

America Online is easier

and better than ever. It's

install, comes with FREE

customer service, and

you with lots of stuff

can't find anywhere

**TO EXPERIENCE
IT FIRSTHAND,
1-800-4-ONLINE**



So easy to use,
no wonder it's

Includes



Availability may be limited, especially during peak hours.

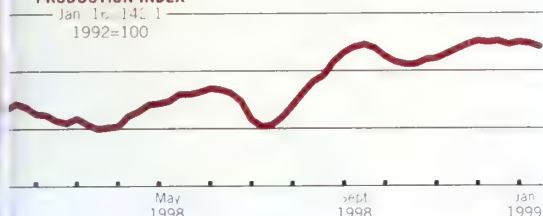
© 1998 America Online, Inc.

Business Week Index

ACTION INDEX

Change from last week: 0.3%
Change from last year: 3.9%

PRODUCTION INDEX



The action index fell in the week ended Jan. 16, and the unaveraged index fell to 141.6, from 141.7 a week ago. After seasonal adjustment, output dropped 5.7%, with the largest decreases in available in the southeast and mid-Atlantic regions. Crude-oil refining plunged with substantial dips in operations on the West Coast. Output of steel, coal, lumber, and rail-freight traffic increased during the week.

LEADING INDICATORS

	LATEST WEEK	WEEK AGO	YEARLY % CHG
RICES (1/22) S&P 500	1225.19	1243.26	27.9
TE BOND YIELD, Aaa (1/22)	6.17%	6.16%	-7.5
UPPLY, M2 (1/11) billions	\$4,425.4	\$4,430.7r	8.9
CLAIMS, UNEMPLOYMENT (1/15) thous	346	360r	6.8
IE APPLICATIONS, PURCHASE (1/22)	278.3	276.4	-11.2
IE APPLICATIONS, REFINANCE (1/22)	1,572.2	1,634.4	-49.2

Standard & Poor's, Moody's, Federal Reserve, Labor Dept., Mortgage Interest Index (Index, March 16, 1990=100)

BEST RATES

	LATEST WEEK	WEEK AGO	YEAR AGO
FUNDS (1/26)	4.84%	4.55%	5.52%
CIAL PAPER (1/26) 3-month	4.75	4.77	5.43
RATES OF DEPOSIT (1/27) 3-month	4.86	4.88	5.55
ORTGAGE (1/22) 30-year	6.87	6.93	7.11
BLE MORTGAGE (1/22) one-year	5.70	5.79	5.64
(1/22)	7.75	7.75	8.50

Federal Reserve, HSH Associates, Bloomberg Financial Markets

1=Western Wood Products Assn. 2=Southern Forest Products Assn. 3=Free market value NA=Not available r=revised NM=Not meaningful

THE WEEK AHEAD

REAL INCOME

Feb. 1, 8:30 a.m. EST ▶ Personal income likely rose 0.5% in December, and spending increased 0.6%, says an forecast of economists polled by S&P's MMS, one of The McGraw-Hill companies. In November, income grew 0.1% and spending up 0.1%.

GOVERNMENT SPENDING

Feb. 1, 10 a.m. EST ▶ Outlays for federal government likely rose 0.5% in December, up 0.9% in November.

SURVEY

Feb. 1, 10 a.m. EST ▶ The National Association of Purchasing Management's

business index likely edged up to 46% in January, from 45.1% in December. Falling exports are hurting factory activity.

FOMC MEETING

Tuesday, Feb. 2 ▶ The Federal Reserve's Open Market Committee will meet to set monetary policy. No economist surveyed by S&P's MMS expects the Fed to change the federal funds rate from its current 4.75%. The meeting continues on Feb. 3.

LEADING INDICATORS

Tuesday, Feb. 2, 10 a.m. EST ▶ The Conference Board's index of leading indicators probably increased 0.2% in December, following a 0.6% jump in November.

NEW HOME SALES

Tuesday, Feb. 2, 10 a.m. EST ▶ New homes likely sold at an annual rate of 935,000 in December, from November's 965,000 pace.

EMPLOYMENT

Friday, Feb. 5, 8:30 a.m. EST ▶ The S&P's MMS survey forecasts a 150,000 gain in nonfarm jobs in January, following a weather-boosted jump of 378,000 in December. The unemployment rate probably edged up to 4.4% from December's 4.3% rate.

INSTALLMENT CREDIT

Friday, Feb. 5, 3 p.m. EST ▶ Consumers in December probably took on \$6 billion in new debt.

PRODUCTION INDICATORS

	LATEST WEEK	WEEK AGO	YEARLY % CHG
STEEL (1/23) thous. of net tons	2,002	1,865#	-11.6
AUTOS (1/23) units	104,329	106,333r#	3.5
TRUCKS (1/23) units	125,445	134,999r#	11.3
ELECTRIC POWER (1/23) millions of kilowatt-hrs	63,563	68,436#	-2.5
CRUDE-OIL REFINING (1/23) thous. of bbl./day	14,175	14,832#	0.1
COAL (1/16) thous. of net tons	21,397#	19,351	-6.1
LUMBER (1/16) millions of ft.	484.1#	401.2	9.7
RAIL FREIGHT (1/16) billions of ton-miles	25.6#	23.6	-3.8

Sources: American Iron & Steel Institute, Ward's Automotive Reports, Edison Electric Institute, American Petroleum Institute, Energy Dept., WWPPI, SFPPI, Association of American Railroads

PRICES

	LATEST WEEK	WEEK AGO	YEARLY % CHG
GOLD (1/27) \$/troy oz.	283.800	286.000	-5.4
STEEL SCRAP (1/26) #1 heavy, \$/ton	84.00	84.00	-42.3
COPPER (1/22) ¢/lb.	69.2	69.6	-14.1
ALUMINUM (1/22) ¢/lb.	59.3	60.0	-18.2
COTTON (1/22) strict low middling 1-1/16 in., ¢/lb.	57.54	57.67	-7.4
OIL (1/26) \$/bbl.	11.86	11.89	-29.3
CRB FOODSTUFFS (1/26) 1967=100	205.92	210.02	-9.3
CRB RAW INDUSTRIALS (1/26) 1967=100	262.80	264.16	-12.5

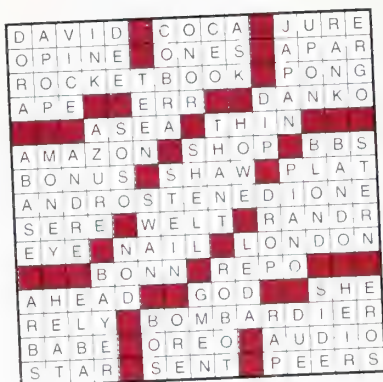
Sources: London Wednesday final setting, Chicago market, Metals Week, Memphis market, NYMEX, Commodity Research Bureau

FOREIGN EXCHANGE

	LATEST WEEK	WEEK AGO	YEAR AGO
BRAZILIAN REAL (1/27)	1.9050	1.5750	1.1223
BRITISH POUND (1/27)	1.65	1.65	1.64
CANADIAN DOLLAR (1/27)	1.52	1.52	1.46
EUROPEAN EURO (1/27)	1.1454	1.1567	NA
JAPANESE YEN (1/27)	115.75	113.52	124.97
KOREAN WON (1/27)	1176.1	1166.5	1550.0
MEXICAN PESO (1/27)*	10.165	10.195	8.310
TRADE-WEIGHTED DOLLAR INDEX (1/27)	106.5	105.6	109.5

Sources: Major New York banks Currencies expressed in units per U.S. dollar, except for British pound in dollars. Trade-weighted dollar via J.P. Morgan

Mixing Business with Pleasure by Lincoln



Answers from puzzle #7
in Business Week.



LINCOLN

1-800-446-8888

Index to Companies

This index gives the starting page for a story or feature with a significant reference to a company. Most subsidiaries are indexed under their own names. Companies listed only in tables are not included.

A

ABC (DIS) 20
ABN Amro Asia (AAN) 38
Adams Harkness & Hill 88
Agouron Pharmaceuticals (AGPH) 53
Airbus Industrie 68
AirTouch Communications (ATI) 68, 130
Alaska Air (ALK) 53
AltaVista (CPQ) 53
Amazon.com (AMZN) 68, 87
American Airlines (AMR) 58
American International Group (AIG) 85
American Skandia 26, 34
America Online (AOL) 6, 68, 87, 88, 130
Antique Trader Publications 120
Archer Daniels Midland (ADM) 53
Ascend Communications (ASND) 111
AT&T (T) 12, 111
Auction Universe 120
Auntie-Dot-Com 120

B

BancBoston Robertson Stephens (BKB) 87, 111
Bank Austria 88
Bankers Trust (BT) 64, 68, 122, 130
Barnes & Noble (BKS) 68
Bay Networks (BAY) 111
Bear Stearns (BSC) 85
Bell Atlantic (BEL) 68, 111
Bell Laboratories (LU) 111
BellSouth (BLS) 111
Bertelsmann 68, 130
Blomqvist 120
BMW 40
Boeing (BA) 34, 68
Boston Consulting Group 87
BP Amoco (BPA) 68, 130
Brandywine Fund 122
British Aerospace 85
Burapa Steel Industries 72
Burlington Industries (BUR) 53
Butler Manufacturing (BBR) 59
Buy Collectibles 120

C

Capital Market Risk Advisors 85
Cash Technologies (CHNG) 88
Caterpillar (CAT) 34
Chicago Bulls 20
Ciena 111
Cisco Systems (CSCO) 87, 111
Coca-Cola (KO) 46
Coinstar (CSTR) 88
Comcast (CMCSK) 88
Compaq Computer (CPQ) 22, 53, 88
Conference Board 127
Crown Publishing Group 120
CSM Online 121
Cummins Engine (CUM) 111

D

DaimlerChrysler (DCX) 40, 64, 68, 72, 74, 130
Dayton Hudson (DH) 122
Dell Computer (DELL) 22, 84, 111
Delta Air Lines (DAL) 53, 58

Delta Consulting Group 111
Deutsche Bank (DBK) 34, 39, 64, 68, 72, 130
Deutsche Telekom (DT) 68
Diacrin 78
Digital Domain 50
Direct Hit 22
Donaldson Lufkin Jenrette 40
Douglas/Gallagher 59
DreamWorks SKG 50
Dreyfus Retirement Income Fund 122
Dreyfus Technology Growth Fund 111

E

Eastman Kodak (EK) 46
Eaton Vance Prime Rate Reserves 90
eBay (EBAY) 87, 120, 121
EMC (EMC) 122
Ericsson (ERICY) 68, 130
E*Trade (EGRP) 84, 87
Exxon (XON) 34

F

Fiat (FIA) 40
Fidelity Investments 39, 87
First Call 34
First Union (FTU) 50
Ford (F) 40, 46, 74
FPA New Income Fund 90
France Telecom 68
Fuji Heavy Industries 74

G

Galliard Capital Management 122
Gap (GPS) 122
GE Capital (GE) 39, 88
General Electric (GE) 72
General Motors (GM) 40, 46, 74
Genzyme (GENZ) 78
Gillette (G) 64
Goldman Sachs 34, 88
Grunta 34, 84
Guangdong International Trust & Investment 38

H

Hewlett-Packard (HWP) 53, 111
Honda (HMC) 50, 74
Honeywell (HON) 85
HSBC Securities 38
Hudson News 53
Hueler 122

I

ICG Communications 111
Industrial Light+Magic 50
ING Groep 39
Inktomi (INKT) 53, 88
Intel (INTC) 34
Interactive Collector 120
International Finance 72
Internet Capital 88

J

Janus Flexible Income Fund 90
Japan Leasing 39
John Hancock 46, 122
Johnson & Johnson (JNJ) 53, 84
Juniper Networks 111

K

Kearney (AT) 72
Kia Motors 40

Koei Credit 39
Korea First Bank 39
KPMG 12, 72, 85
Krause Publishing 120

L

Lake 39
Layton Bioscience 78
Legg Mason (LM) 53
Lehman Brothers (LEH) 84
Lewin Group 53
Linux 53
Long-Term Capital Management 37
Los Angeles Lakers 20
LT Credit 39
Lucent Technologies (LU) 111
Lufthansa 68
Lycos (LCOS) 88

M

Mannesmann 68
Marsh & McLennan (MMC) 85
Matsushita (MC) 74
McDonald's (MCD) 46
McGraw-Hill (MHP) 127
MCI Worldcom (WCOM) 53, 111
McKinsey 64
Mercer (William M.) 53
Merrill Lynch (MER) 6, 34, 39, 46, 84
Metropolitan Life 39
MFS New Discovery Fund 87
Microsoft (MSFT) 6, 8, 34, 53, 84, 88

N

NBA 20
NCR (NCR) 111
Netscape Communications (NSCP) 6
Neural Stem 78
Nexabt Networks 111
Nike (NKE) 50
Nissan (NSANY) 40, 74
Nokia (NOKA) 68, 122, 130
Northern Light 22
Northern Telecom (NT) 111
Northern Trust 88
Novartis 68

O

Oppenheimer 122

P

Pacific Data Images 50
PaineWebber (PWJ) 58
Panasonic 22
Panasonic EV Energy 74
Paribas 64
PEM Technologies 59
Perseus Books Group 8
Pfizer (PFE) 84
Phelps Dodge (PD) 34
Phillips 120
PIMCO Funds 90
PrimeCo Personal Communications 111
Procter & Gamble (PG) 46
Progressive Casualty Insurance (PGR) 50
Prudential Securities 39, 53, 87

Q

Qwest Communications (QWST) 111

R

Reliance Group 85
Renaissance Financial Securities 53
RFA 26
Roberts Roach & Ash
Rudick Asset Management

S

Safeguard Scientific
Salomon Smith Barney 111
Sara Lee (SLE) 34
Scholastic (SCHL) 74
Schroders Japan 74
Schwab (Charles) 74
Seagate Technology
Sears (S) 87
Sentimental Journey
Silicon Graphics (SG) 85
Sony (SNE) 22, 50
Sotbeby's 120
Southwest Airlines
Spectrum Group 12
Sportsline USA (SPU) 12
Standard & Poor's 38, 85, 111, 122
Starr Securities 88
Strohl Systems Group
Sun Microsystems 122
Swiss Reinsurance

T

Tele-Communication (TCOMA) 6, 12
Tellabs (TLAB) 122
Texaco (TX) 34
3Com (COMS) 122
3M (MMM) 34
Time Warner (TWX) 122
Time Warp Toys & Collectibles 121
Toho Mutual Life 3
Toro (TTC) 85
Toyota (TOYOT) 40
Toyscots 121
Travelers (C) 39
TransMolecular 80
T. Rowe Price 87
Tyco International (C)

U

Unilever Group (UNY) 34
UniSys (UIS) 34
United Airlines (UAL) 5
US Airways (U) 58
Utah Jazz 20

V

Vanguard Group 9
Van Kampen Primat Trust 90
VerticalNet 88
V.I. Technologies 1
Vodafone (VOD) 61
Volkswagen (VWKA) 4
Volvo (VOLVY) 40

W

Warner-Lambert (W) 122
Wasatch-Hoisington Fund 90
Wasserstein Perella
WPP Group 84

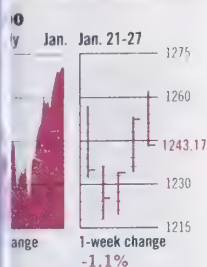
Y

Yahoo! (YHOO) 22

Z

Ziff-Davis 12

Investment Figures of the Week



TARY
roller-coaster ride! In five sessions, the Dow has had three day-to-day changes of over 120 at the net change for was just -1.5%. The surprising, consider-than-expected profit from many blue-chip stocks. The bright spot, of was technology: Microsoft, and America delivered super gains. a few days' sell-off, stocks again raced up speed. On Jan. 27, on- oneer eBay soared 83 close at 304.

U.S. MARKETS	Latest	% change	
		Week	Year
Dow Jones Industrials	9200.2	-1.5	16.2
NASDAQ Combined Composite	2407.1	-0.3	49.4
S&P MidCap 400	374.7	-2.1	15.2
S&P SmallCap 600	172.2	-3.1	-2.7
S&P SuperComposite 1500	261.5	-1.2	24.9

SECTORS	Latest	% change	
		Week	Year
Bloomberg Information Age	517.7	-2.1	68.0
S&P Financials	127.3	-3.7	10.9
S&P Utilities	248.7	-0.3	9.6
PSE Technology	493.7	1.0	65.3

FOREIGN MARKETS	Latest	% change	
		Week	Year
London (FT-SE 100)	5876.4	-3.8	9.4
Frankfurt (DAX)	5061.2	-1.6	15.3
Tokyo (NIKKEI 225)	14,450.1	3.0	-14.9
Hong Kong (Hang Seng)	9719.7	-5.8	5.1
Toronto (TSE 300)	6651.7	-0.9	-1.2
Mexico City (IPC)	3815.4	1.1	-16.1

FUNDAMENTALS	Latest	Week ago	Year ago
S&P 500 Dividend Yield	1.26 %	1.26 %	1.59 %
S&P 500 P/E Ratio (Last 12 mos.)	32.6	33.1	24.1
S&P 500 P/E Ratio (Next 12 mos.)*	24.3	24.3	19.2
First Call Earnings Surprise*	4.44 %	6.93 %	2.56 %

TECHNICAL INDICATORS	Latest	Week ago	Reading
S&P 500 200-day average	1116.4	1113.9	Positive
Stocks above 200-day average	35.0 %	37.0 %	Positive
Options: Put/call ratio	0.46	0.47	Negative
Insiders: Vickers Sell/buy ratio	1.43	1.39	Positive

Data: Bloomberg Financial Markets; *First Call Corp.

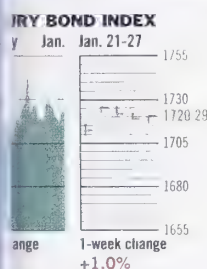
BEST-PERFORMING GROUPS	Last month %	Last 12 months %
Computer Software	16.0	Communications Equip. 132.9
Broadcasting	15.9	Specialty Appar. Retailers 98.1
Specialty Appar. Retailers	13.2	Computer Systems 92.1
Personal Loans	12.8	Genl. Merchandise Chains 91.1
Automobiles	12.3	Computer Software 90.9

WORST-PERFORMING GROUPS	Last month %	Last 12 months %
Hospital Management	-20.4	Oil & Gas Drilling -53.2
Tobacco	-14.7	Oil Exploration & Prod. -37.4
Oil Exploration & Prod.	-12.9	Hospital Management -34.0
Property-Casual. Insurers	-12.2	Toys -33.6
Engineering & Constr.	-11.0	Metals -33.5

BLOOMBERG MONEY FLOW ANALYSIS

Rebound ahead? Stocks with most significant buying on price weakness	Price	1-month change
America Online	155	-2 1/4
IBM	185 3/8	-3 3/8
Lucent Technologies	110	-1 3/16
Exxon	72 1/4	-2 1/4
American Express	101 3/4	-3 1/16
Telebras-ADR	63 3/8	-11 1/8
Decline ahead? Stocks with most significant selling on price strength	Price	1-month change
Microsoft	171 3/16	29 3/16
Cisco Systems	107 1/8	12 15/16
MCI WorldCom	77 15/16	8
Intel	136 15/16	14 13/16
Dell Computer	88 1/2	13 3/4
Sun Microsystems	106 3/8	21 3/8

EST RATES



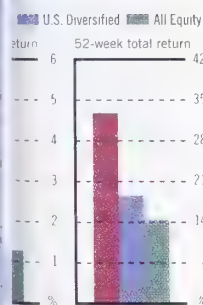
KEY RATES	Latest	Week	Year
		ago	ago
MONEY MARKET FUNDS	4.66	4.69	5.19
90-DAY TREASURY BILLS	4.46	4.37	5.23
6-MONTH BANK CDS	4.36	4.38	5.12
1-YEAR TREASURY BILLS	4.49	4.53	5.33
10-YEAR TREASURY NOTES	4.67	4.76	5.69
30-YEAR TREASURY BONDS	5.13	5.18	5.94
LONG-TERM AA INDUSTRIALS	6.09	6.09	6.60
LONG-TERM BBB INDUSTRIALS	6.75	6.84	7.01
LONG-TERM AA TELEPHONES	6.35	6.40	6.96

BLOOMBERG MUNI YIELD EQUIVALENTS

Taxable equivalent yields on AAA-rated, tax-exempt municipal bonds, assuming a 31% federal tax rate.

	10-yr. bond	Last	30-yr. bond	Last
	Latest	week	Latest	week
GENERAL OBLIGATIONS	4.08%	4.16%	4.82%	4.90%
PERCENT OF TREASURIES	87.35	87.67	94.05	94.84
TAXABLE EQUIVALENT	5.91	6.03	6.99	7.10
INSURED REVENUE BONDS	4.23	4.32	5.09	5.18
PERCENT OF TREASURIES	90.56	91.04	99.32	100.21
TAXABLE EQUIVALENT	6.13	6.26	7.38	7.51

L FUNDS



EQUITY FUNDS			
Leaders		Laggards	
Four-week total return	%	Four-week total return	%
Perkins Opportunity	33.7	Montgomery Latin Amer. R	-31.3
Internet	32.5	ProFunds UltraShort OTC Inv.	-23.7
WWW Internet	26.9	Offitbank Latin Amer. Sel.	-23.1
ProFunds UltraOTC Inv.	25.9	Invesco Latin American Gr.	-22.3
Munder NetNet A	21.8	Ivy South America B	-20.5
Leaders		Laggards	
52-week total return	%	52-week total return	%
Internet	283.2	Lexington Troika Russia	-79.0
ProFunds UltraOTC Inv.	238.0	Montgomery Latin Amer. R	-63.4
Amerindo Technology D	154.2	American Heritage	-59.0
Potomac OTC Plus	130.2	Potomac OTC/Short	-58.5
Dreyfus Technology Growth	127.7	Offitbank Latin Amer. Sel.	-54.3

EQUITY FUND CATEGORIES			
Leaders		Laggards	
Four-week total return	%	Four-week total return	%
Technology	11.9	Latin America	-15.9
Communications	10.2	Pacific/Asia ex-Japan	-4.1
Small-cap Growth	5.1	Diversified Emerging Mkts.	-3.2
Mid-cap Growth	4.3	Natural Resources	-1.4
Japan	3.3	Financial	-0.9
Leaders		Laggards	
52-week total return	%	52-week total return	%
Technology	69.1	Latin America	-42.7
Communications	58.4	Diversified Emerging Mkts.	-23.0
Large-cap Growth	42.4	Natural Resources	-22.2
Large-cap Blend	25.4	Real Estate	-16.0
Mid-cap Growth	24.8	Precious Metals	-15.2

s of market close Wednesday, Jan. 27, 1999, unless otherwise indicated. Industry e S&P 500 companies only. Fundamentals, technical indicators, Bloomberg mon-

ey flow analysis, and mutual fund returns are as of Jan. 26. For a more detailed explanation, write to us or E-mail figures@businessweek.com. NA=Not available **Vanguard Index 500 Fund

THE NEW ATLANTIC ECONOMY

Le Défi Américain (*The American Challenge*) by Jean-Jacques Servan-Schreiber and *Japan As Number One* by Ezra Vogel were defining political commentaries of their time. The first warned in the 1970s that Europe was being overwhelmed by America. The second warned in the 1980s that the U.S. was being overtaken by Japan. As the 1990s come to an end, it is clear that neither is true. Europe is surprisingly resurgent, Asia is unexpectedly weak, and America is convincingly renewed. Predictions of a Pacific Century, with the U.S. closely linked to Asia, are proving to be wrong. The fulcrum of world power is shifting from the Pacific Rim to the Atlantic Basin. A new Atlantic Economy is being created based on converging corporations, similar economic policies, and shared cultural values. As Asia turns a fretful face toward market capitalism, a Euro-American era appears increasingly likely to dominate the early 21st century.

How did this surprising turn of events come about? The fast, high-tech, high-growth pace set by the U.S. in the '90s polarized the global economy. Asia could not sustain it. Japan stalled, and a volatile mix of hot capital, cronyism, and plummeting prices caused emerging nations to crash and burn. Europe, by contrast, thrived. Although it suffers slow-growth restructuring pains akin to the U.S. a decade ago, Europe is regaining its competitive spirit. Increasingly, Europe and America are treated as a single economic society by corporations, techies, investors, and job-hopping executives.

The commonalities and convergences abound. Although European intellectual elites may wince, the Anglo-Saxonization of the Continent's business culture, with its focus on shareholder value, flexibility, and transparency has turned Europe's stodgy companies into a herd of ferocious competitors. Leaping across the Atlantic, they are buying, merging, or linking up with American rivals. DaimlerChrysler. BP Amoco. Bertelsmann-America Online. Vodafone-AirTouch.

While politicians in Washington and Brussels bicker over bananas, CEOs like Daimler's Jürgen Schrempp and C. Robert Eaton are throwing lines across the sea.

America's obsession with technology is also playing a key role in European strengths. Nokia zigged when Motorola zagged, switching from analog to digital cell phones and grabbing the lead. Even Europe's retrograde instincts for regulation, by mandating one digital standard for the Continent, created a huge base for Nokia and Ericsson. Along the technological frontier, the U.S. has the Internet, but Europe has the commanding heights in individual mobile communications.

The final equalizer is the euro. Having a single currency uniting a region that neatly parallels the U.S. in size, population, gross domestic product, trade, publicly listed companies (9,000 plus), technology, and, with time, capital markets could make Europe the mirror image of America. A euro that trades closely with the dollar allows global investors to evaluate all listed companies in the Atlantic Economy at the same time with the same criteria.

History teaches that nations and regions can rise and fall in the flick of a decade. In this fading century, Europe, Asia, and America have run the cycle many times, tripping over their own hubris, then regrouping to come back. Today, rocked by crisis, is still in shock. Japan, like most of Asia, appears torn between reforming and opening its economy, closing it further to the volatility of market capitalism. The right combination of capital regulation, foreign investment, and favorable terms of trade could reignite Asia once again.

Until then, the emerging Atlantic Economy will set the pace for the world economy. Last year, when CEOs and political leaders gathered for the World Economic Forum in Davos, Switzerland, Americans were seen as walking away with the prize. This year, Europeans will be doing a bit of strutting of their own. Together, they are waltzing into the future.

INSURE CORPORATE EARNINGS? BAD IDEA

America's corporate culture is in good shape, as the stock market will testify. There's a healthy focus on the bottom line, an emphasis on designing hot new products, a drive to use the Internet, and a global perspective. But every once in a while something truly wacky spins out of the corporate ether. Earnings insurance is surely one of them.

Insurance companies, it appears, are selling what one calls Enterprise Earnings Protection Insurance, which promises to cover any operating earnings shortfall caused by events beyond management's control. So if Brazil unexpectedly devalues, you're protected. La Niña disrupting the weather? It's O.K. Interest rates suddenly spike? Don't worry. Be happy.

Now, no one likes volatility, and taking risks, is, well, risky. But that's what managers are paid to do. Earnings insurance

takes the accountability out of management and guarantees performance and pay. And it can lull executives into sins of omission and commission. Everyone knows the temptation to try and lock in the future remains.

So we suggest a few new insurance products. Executives, of course, should be able to protect against layoffs. They should get insurance against failing to get into a new market (think of all those lost future earnings). And how about life insurance for boomers whose parents do not want to live with them? Then there's global warming insurance, disaster insurance... You get the idea.

Risks are part of life and certainly part of business. Managers get paid well in America for taking them, and the stock market does well for having them. Pass this fad by.

Zip! For a faster tax refund click send



IRS *e-file* is today's way to file your income tax—and get your refund back in half the usual time. Even faster with Direct Deposit!

If you prepare your tax return on your PC or Mac, take the next step and *file* it electronically too.

Click! IRS *e-file* is fast, simple, accurate and secure. And you can e-file 24 hours a day, 7 days a week.

Do you owe more tax? You can still e-file your return now, get fast proof of acceptance from the IRS, but then wait until April 15th to make the payment. One option allows you to authorize a withdrawal from your bank account on the date you choose, up to April 15th. Another option allows you to pay with your credit card.

Any questions? Check the IRS Web site at www.irs.ustreas.gov or your tax preparation software.

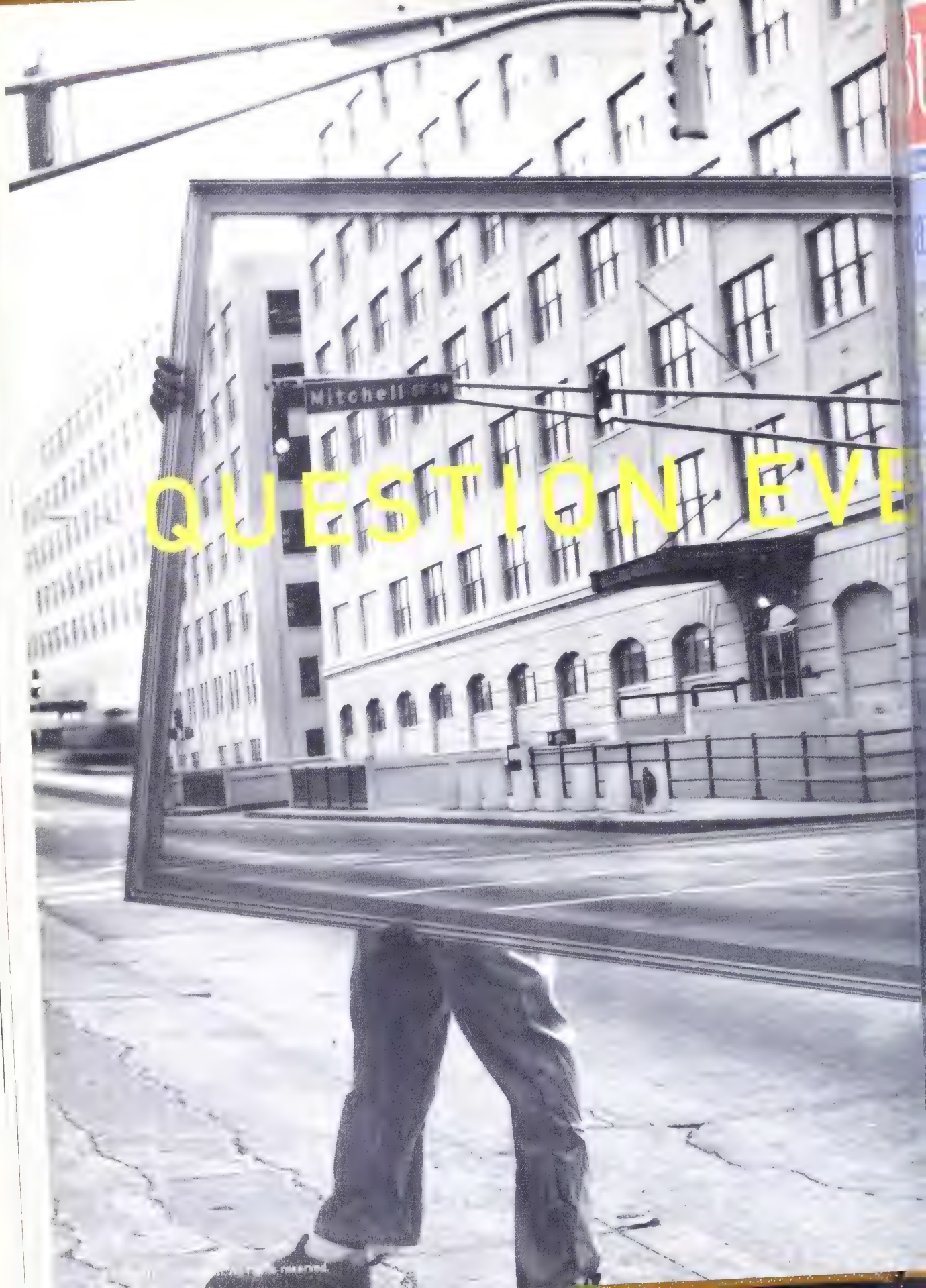
IRS *e-file*. It's the fastest way to get a tax refund.



CLICK. ZIP.
FAST ROUND TRIP.

The Internal Revenue Service  Working to put service first

QUESTION EVER



January 15

3 9042 04589987 6

BusinessWeek

JANUARY 15, 1999

A PUBLICATION OF THE MCGRAW-HILL COMPANIES

\$3.95

Japan
and its distress



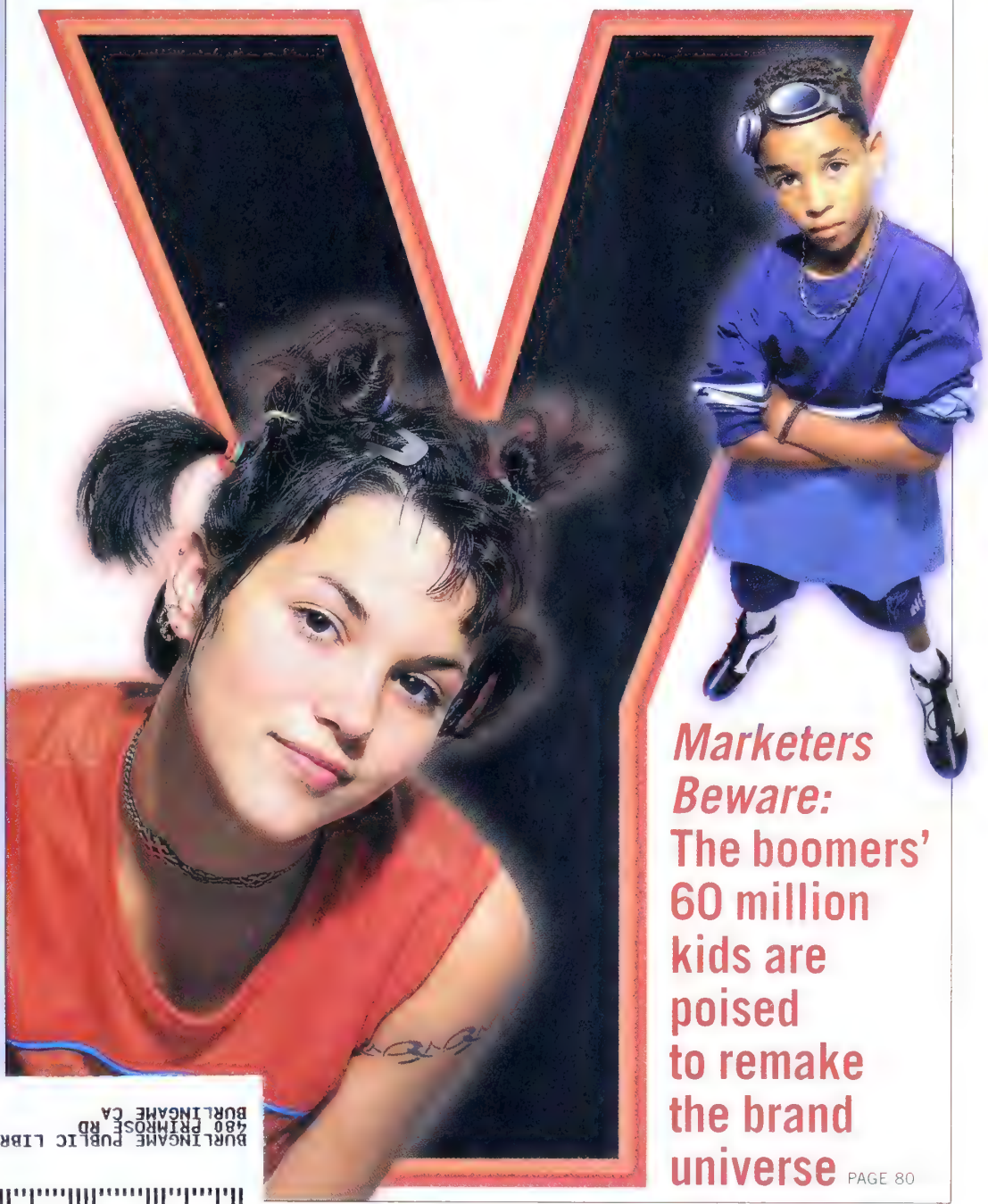
U.S.
Economy
Surprise!
A new
boost from
spending

Microsoft
Trial



High Tech
Survival
guide
for road
warriors

GENERATION



**Marketers
Beware:**
The boomers'
60 million
kids are
poised
to remake
the brand
universe

PAGE 80

UNGAME
5 - 1999

BRARY

BURLINGAME PUBLIC LIBRARY
480 PRIMROSE RD
BURLINGAME, CA
#0602 1058111600#JAN00 10



LEI
HOTELS

DIANE RYLANDER
events manager

(ar)

5039 West Fourth Street

Tel 521.555.0017 Fax 521

Never once did she dream of building a database. But Diane could dream up a hundred ways to make her department run more smoothly. So, after a particularly brutal month of late nights, lost weekends and questionable cuisine, Diane took glee in digging up the old cliché: If you want something done right, do it yourself.

IAN
RESORTS

database wizard)

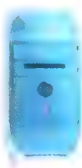
Texas 78745

drylander@lhr-inc.com

Joining FileMaker Pro with her business expertise, she built a
solution that solved her department's problems perfectly. In fact,
she created a database that no one in the world could have created
for her. Come visit us at www.filemaker.com. What's your problem?



The new Power Macintosh G3.



The Power Macintosh G3 has been completely reinvented. With Pentium-crushing PowerPC processors up to 400MHz, the world's first integrated ATI RAGE 128 2D/3D-graphics accelerator (the new industry speed champ, faster than even the venerated Voodoo2 add-in card), up to 1GB of memory and up to 100GB of internal disk storage. The new Power Macintosh

Now opening on a desk near you.



PCI slots and more ways to connect to external devices, with built-in 100Mbps Ethernet, USB and FireWire. It also gives you a revolutionary way to access the revolutionary technology inside — a side panel that opens as easily as, well, opening a door. The new Power Mac G3. It's the most powerful, expandable Macintosh ever built. Now open for your inspection at www.apple.com. Think different.

BusinessWeek

FEBRUARY 15, 1998



Cover Story

80 GENERATION Y

Today's teenagers—the biggest population bulge since the baby boomers—are so ad-savvy that marketers who want to reach them may be forced to toss out their old tricks. Celebrities—and a slew of formerly golden brand names—are out. Humor and irony are in. Meanwhile, the Internet is changing everything

88 DELIA'S SHOWS THE WAY

The cataloger has won the hearts and wallets of teen girls nationwide

News: Analysis & Commentary

30 THERE'S LIFE IN THE OLD BOOM YET

Buoyant capital spending is making economists up their 1999 forecasts for U.S. GDP growth

32 LETTER FROM DAVOS

At the premier economics powwow, big ideas and buzzwords from the bigwigs

33 COMMENTARY: THE BUDGET

Coming soon: The baby boom that ate the budget

34 COMMENTARY: THE MICROSOFT TRIAL

The software giant is taking a beating on the witness stand. But if it loses, what remedy is appropriate?

35 BYPASSING WINDOWS

Three of the top four computer makers will ship machines that don't need an operating system

36 SEARLE'S NEW BLOCKBUSTER

Its arthritis drug is doing so well it has the company positively giddy

38 COMMENTARY: STOCK OPTIONS

Repricing rewards executives for poor performance at shareholders' expense

40 THE LATEST PRIDE OF THE PRITZKERS

Partner and son of the late Jay, Tom is well-positioned to continue dealmaking

42 COMMENTARY: FORD

The No. 2 carmaker is heading for first place in fourth gear

44 IN BUSINESS THIS WEEK

International Business

48 JAPAN

The bank mergers and forced sales to foreigners are just the start of even greater upheaval

50 FRANCE

Two major deals—SG-Paries Guardian—have the French poised to shake up European

57 INTERNATIONAL OUTLOOK

With the economy stalling and a campaign under way, a war may be Israel's last best hope

Economic Analysis

22 ECONOMIC VIEWPOINT

Tyson: Clinton's plan for Europe is right on the money. Putting the funds in stock will boost

26 ECONOMIC TRENDS

How market information affects the big stocks, more so than U.S. youth

27 BUSINESS OUTLOOK

Consumer-friendly wealth settlement were what tune for that strong fourth quarter

Government

47 WASHINGTON OUTLOOK

Why a patients' bill of rights will pull through

ER STORY

ATION Y

ds and selling
s that wood
er siblings
rking



SMALL COMFORT

Why Japan is in
for a long, painful
workout page 48

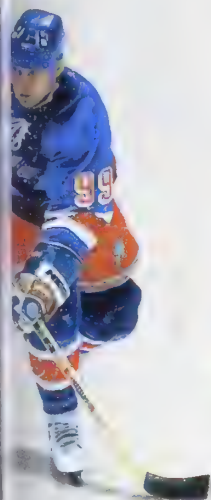


BRADLEY TALKS

A very different
Bill on being
President page 64

ROAD TIPS

Keeping
your laptop,
and its
secrets,
safe
page 110



NEW LIFE

U. S. growth in 1999
will outstrip the old
estimates page 30



DAMAGE

Microsoft
shoots
itself in the
foot page 34

OFFSTAGE DRAMA

What the
SEC found
at Livent page 104



PC PROWESS

How China's Legend
is outrunning
foreign rivals page 75

WITH BILL BRADLEY

ed to think bigger thoughts,"
e early-bird candidate in an
ew

a
ELLOR MEDIA'S ABOUT-FACE
nd infighting may be behind a
y shift from frenzied buying of
to putting itself on the block

eting

BREATH IN TOYLAND

y industry makes a big bet—
too big—on the next *Star Wars*
by Lucasfilm

s Business

ND ICE AT THE NHL

an big-league hockey have
y problems—and yet be doing
?

mation Technology

DLOGY & YOU

t-Packard's new handheld
? A failure to communicate

75 WILL LEGEND BE CHINA'S IBM?

Aiming to become a world-class player,
the country's No. 1 PC maker is making
gains in computers and software

78 IF YOU CAN'T BEAT 'EM...

In China's exploding PC market, picking
a local partner is the best way
for U.S. makers to gain distribution

Finance

90 BENCHMARK MAKES ITS MARK

Its breathtaking success with online
highflier eBay has made the upstart
venture-capital outfit the talk of
Silicon Valley

92 INSIDE WALL STREET

121 INVESTMENT FIGURES OF THE WEEK

Mutual Funds Scoreboard

94 OUR CLOSED-END SCOREBOARD

BUSINESS WEEK introduces its latest
Scoreboard to help you spot closed-end
funds that are trading at a discount to
their assets

The Corporation

104 BAMBOOZLING THE BEAN COUNTERS?

The SEC alleges that Livent cooked the
books, using specially tailored software

Personal Business

110 THE MOBILE EXECUTIVE

Guarding your laptop—and its secrets
Scoping out mobile computing stocks

Features

6 UP FRONT

10 READERS REPORT

11 CORRECTIONS & CLARIFICATIONS

17 BOOKS

Frank: *Luxury Fever*

20 BUSINESS WEEK BEST-SELLER LIST

107 DEVELOPMENTS TO WATCH

AIDS immune boosters, how ducks sleep,
"green" fluorescents, starving tumors

119 BUSINESS WEEK INDEX

120 INDEX TO COMPANIES

122 EDITORIALS

BusinessWeek **ONLINE**

www.businessweek.com
America Online: Keyword: BW

Up Front

EDITED BY ROBERT McNATT

AFTERLIVES

SIEGFRIED AND GORBY?

IT'S NOT THE USUAL LOUNGE act. He can't sing or do magic tricks. But for one show only, former Soviet President Mikhail Gorbachev will appear at the Mirage Casino Hotel in Las Vegas on Mar. 1. It's part of a road show to raise funds for his beleaguered Moscow-based political think tank. Gorbachev plans to speak to the International Foodservice Manufacturers Assn. for \$150,000, plus use of a private jet in the U.S. Those assembled will hear about Russia's troubles while mulling over possible investments there.



MINING THE STRIP
for \$150,000

This gig is about more than drumming up capital, though. The Gorbachev Foundation needs cash. Spokesman Vladimir Poliakov says it lost \$80,000 after the ruble's August devaluation. Other funds are frozen in now-defunct

Russian banks. So to make money, Gorbachev is lecturing to audiences other than the academic types who usually pay to hear him. After Vegas, he'll speak at the World Masters of Business conference in Australia with another toppled leader, former Sunbeam CEO Al Dunlap. Next, he may emcee Italy's kitschy San Remo pop music festival. Capitalism may make him a money slave, but it can be fun too. *Margaret Coker*

SLUGFESTS

INVASION OF THE CYBER HEADHUNTERS

IN THE ONGOING BATTLE between traditional executive recruiters and the new breed of online headhunters like HotJobs.com and Monster.com, the online guys are scoring points. Not only are they encroaching onto the old-line recruiters' bread-and-butter business of placing middle managers, they're also poaching their execs.

HotJobs, for instance, just recruited Stephen Garrison, ex-CEO of traditionalist Ward Howell, now LAI Ward Howell. Garrison doubts that old-line firms, like Korn/Ferry International or Heidrick & Struggles, where he also once



worked, can reinvent themselves adding online services. Compared to the new guys, their versions are just too slow, he says.

Both Korn/Ferry and Heidrick & Struggles are now preparing initial public offerings. Analysts say that in talks with potential investors, Korn/Ferry is heavily promoting its online service, Futurestep, hoping to cash in on the craze for Internet stocks. Heidrick's online service, run by Michael Arrigo, isn't up yet. Yet Arrigo says his firm's quality will always trump the pizzazz of his upstart online rivals: "You'll never see us advertising in the Super Bowl." But "never" is such a long time. *Joan Oleck and Jennifer Reingold*

TALK SHOW "All I can say is that I found her heartbreakingly young."

—Senator Susan Young (R-Maine), after seeing Monica Lewinsky's video deposition

I-WAY PATROL

INCOGNITO ON THE NET

CAN A COMPANY that thrived by holding thunderous pep rallies of soap-selling entrepreneurs find success in the impersonal expanse of the Internet? Amway figures that it's worth a try, especially since a faltering Asian economy hurt business last year. Amway wants to regain its momentum. So now it will sell goods over the Net. But here's the twist: The Amway name won't be there.

Amway plans to open its online shopping business on Sept. 1. The new venture will enable the company's 3 million distributors to sell goods



through their own Web businesses. However, not many people log their computers to buy or toothpaste. In instance, the company also just offer dozens of different well-known home brands online. Executives still figuring out what to do with the new venture.

One thing is certain: It will be called Amway. The company has been battered by negative publicity, especially in Asian countries. Its multilevel sales approach is almost evangelical. Says Co-Chief Executive Richard DeVos Jr.: "I will be a new Amway on the Web." Okay? But how the heck will it hold a pep rally in cyberspace? *Joanne*

WRETCHED EXCESS

JACKIE MANIA HITS THE HIGH SEAS

HERE'S A SIGN THAT THE world economy is doing nicely for some folks. A family friend of the late Aristotle Onassis has bought the shipping magnate's yacht, Christina O., and will offer a month-long Millennial Cruise in December. The charter will cost a cool \$3.5 million. So far, the owner has taken eight offers on the trip.

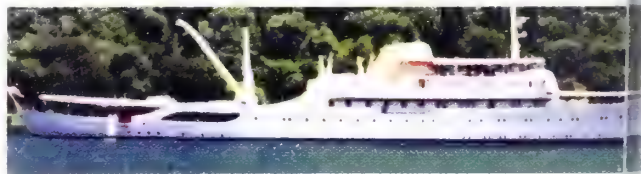
Maybe it's the chance to bed down where Jackie O. slept that's drawing them in. Or the fact that the yacht, staffed by a crew of 34, will pick you up and sail any-

where in the world. Maybe it's the thought of cruising on a 325-foot ship with its own casino, jacuzzis, and a swimming pool that converts to a floor, among other amenities.

Still sound pricey? In October, owner John Papanicolaou starts renting the yacht out at the pre-bid price of \$500,000 a week. Papanicolaou, president of Athens-based Titan Age and Christina O., has paid \$20 million to refurbish the Christina, which was no longer on the family.

And if the price still seems steep, you don't have to pay the entire bill yourself. The yacht sleeps 36. So you can relax with friends, and

CHRISTINA O.: Pricey charter



How to Make Smarter Mutual Fund Choices in 1999

Prudential core funds

U.S. STOCK

Prudential Equity
Prudential Equity Income

Prudential
Jennison Growth

Prudential Small
Company Value

GLOBAL AND INTL. STOCK

Prudential Europe
Growth

Prudential World/
International Stock

Prudential World/Global

BONDS

Prudential
Diversified Bond
Prudential High Yield

AX FREE BONDS

Prudential Municipal
Bond/High Income

Prudential California
Municipal Bond

GLOBAL BONDS

Global Total Return

Prudential core funds are
a good beginning. We offer over
100 mutual funds to meet all
of your investment needs.



It's that time of year when many investors consider adjusting their mutual fund portfolios. If you're thinking about making some changes, remember: In this bull market, almost any fund family can boast about recent returns. But, bull markets don't last forever. That's why Prudential offers this checklist of other important qualities to look for.

☒ **Choose an experienced fund manager.** Has the fund manager shown stock-picking skills in anything other than today's bull market? *The Wall Street Journal* reports that the average age of today's portfolio manager is just 29. You'll probably feel more at ease with money managers who are experienced in both bull and bear markets.

☒ **Seek a responsible balance of risk and reward.** Don't expose your portfolio to risk you don't want. Make sure that your mutual funds don't achieve their returns by taking on more downside risk than you're comfortable with.

☒ **Look for a disciplined investment style.** Check to see whether a fund sticks to its stated objectives. Funds that pursue performance at the expense of consistency can blur your asset allocation and your overall investment strategy.

☒ **Demand consistent long-term performance.** Investors rarely buy a mutual fund for short time periods, so examine the returns that a fund has delivered—not just recently—but over the last five or ten years. A fund with a proven track record can give you the confidence that your fund is managed with an eye for long-term results. Of course, past performance is no guarantee of future results.

Prudential core funds focus on all these qualities and more.

A Rock Solid® reputation for long-term performance. Fund managers averaging 18 years of investment experience. Intensive company-by-company research. You can find it in Prudential's core fund array. Talk to your financial professional about how Prudential core funds can fit in your overall investment strategy.

Call today! Ask for a prospectus with more complete information on share classes, sales charges, management fees and expenses. Read it carefully before you invest.

1-800-THE-ROCK
(1-800-843-7625)
ext. 3142 www.prudential.com



Prudential
Investments

Investment performance is no guarantee of future results. Shares of the Funds are distributed by Prudential Investment Management Services LLC, member of Prudential Financial, 1 Broad Street, Newark, NJ 07102, a subsidiary of The Prudential Insurance Company of America, 751 Broad Street, Newark, NJ 07102.

IT'LL BE A QUIET PARTY IN OSHKOSH

THE RIOTING IN COLORADO after the Broncos' Super Bowl win was so bad that some cities called in police SWAT teams to quell the happiness. So maybe it makes sense that some states are prepping the National Guard for what could be the party night to end all party nights—New Year's Eve, 1999.

The Wisconsin state assembly is considering a bill that would make "public disorder resulting from the Y2K computer bug" an official reason to call out the Guard. The concept is shared by National Guards in Iowa, Minnesota, and nearly a dozen other states, which have already told volunteers they may be needed to restore order over the New Year's holiday if Y2K-bug havoc leads to riots or civil disorder.

But the Wisconsin measure may represent a fear of lawsuits more than anything

and other Acts of God, but doesn't explicitly say it would be O.K. to do so because of public panic or infrastructure problems resulting from Y2K."

Wisconsin has already taken one step to protect itself from potential lawsuits. A proposal to limit the liability of businesses and state and local governments from Y2K-related lawsuits sailed through the Assembly on Jan. 26—by a vote of 92 to 5. Cheeseheads, it would seem, aren't taking chances. *Marcia Stepanek*

MILLENNIUM COUNTDOWN



CALLING ALL COUCH POTATOES

O.K., SO NO ONE YOU KNOW will consider the possibility that they'll be sitting home on New Year's Eve, 1999. Still, TV producers are betting that there will be plenty of viewers to tune into two 24-hour shows that will follow hour-by-hour festivities as the year 2000 dawns at the International Date Line and circles the globe. So, hoping for a boost in viewership, the fledgling Paxnet broadcast network has agreed to air one of these extravaganzas, put together by the producers of the 1985 Live Aid rock concert.

Organizers hope to draw 4 billion viewers. Paxnet paid nothing for the U.S. rights, but it will share its ad revenue with the producers. A second New Year's show, which will be produced by PBS and the BBC, will air, in part, on ABC. Both shows promise a lot. But if the worst Y2K fears come true, viewers in 150 countries could end up watching blank screens. *Richard Siklos*



else. Steve Baas, a spokesman for Wisconsin Assembly Speaker Scott Jensen, says the state might be liable if it doesn't protect citizens from civil disorders connected with massive computer failures. Existing law, he says, "talks about our authority to call out the National Guard for fires, floods, tornadoes,

DRAWN & QUARTERED



MAD AVE

SAY IT WITH FRESHNESS DATING

ROSE IS A ROSE IS A ROSE IS a rose, wrote Gertrude Stein. But don't tell that to flower sellers who are trying to differentiate themselves from their fellow petal-pushers.

To stand out in a crowd, U.S.A. Floral Products, the nation's biggest flower distributor, is test-marketing a plan with best known for its oranges, to sell flowers under the Sunkist name. The flowers will also sport a tag telling consumers the last date the flowers can be sold for maximum freshness—the equivalent of a "sell by" date on a quart of milk. With a

well-known brand name, the freshness standard the U.S.A. hopes to nip in the bud.

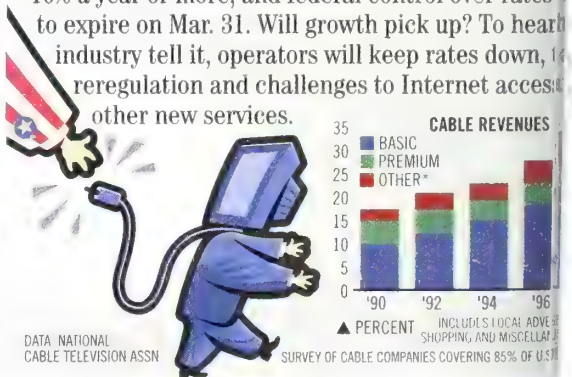
The marketing plan, which is already being tested east of the Mississippi to a national launch, will emphasize freshness. "It's ironic to me we fresh date but not a date like flower observes Chairman Poirier.

Another well-known seller, Dole Food, is planning to lend its name to flowers soon, too. It's all about the roses. But at least, you might know how long you will last. *Jeanette*



THE BIG PICTURE

CABLE FUTURES Cable-TV revenues are growing 10% a year or more, and federal control over rates is to expire on Mar. 31. Will growth pick up? To hear the industry tell it, operators will keep rates down, to offset deregulation and challenges to Internet access and other new services.



Our labels are handmade
on a 19th-century letterpress.
Please bear with us.



Sometimes the folks in our little print shop get distracted and a strange label pops up now and then. But I guess that's the price you pay for doing things by hand.

It is, after all, the way we achieve the very pleasing taste of the bourbon you'll find in every bottle.

Pure, iron-free limestone water from our spring-fed lake. Specially

selected winter wheat. And, of course, the good grace of time.

Handcrafting our bourbon is what we think gives Maker's Mark its smooth, soft taste.

And yes, even our rickety, old letter press still has its place at our distillery—pumping out label after label (most of them, you'll be pleased to know, right side up).

Bill Samuels, Jr.
President

Maker's
Mark

Visit us at www.makersmark.com

Maker's Mark Distillery, Loretto, KY 40037, 45% Alc/Vol. (90 Proof), Fully Matured

DIRECTIONS & CLARIFICATIONS

file your taxes—and save a tree" (Per Business, Feb. 1), we neglected to say in addition to using the Internal Revenue Service's TeleFile program to file a 1040EZ form by phone, taxpayers can also electronically with Block Financial's *Intuit TaxCut 1040EZ Online* (free, at www.intuit.com/software) and *WebTax* (\$9.95; free for taxpayers with netted gross incomes of \$20,000 or less, www.turbotax.com/webturbotax). Also, *Kiplinger TaxCut 1998 Federal Filing* offers free electronic filing. And approximately \$30 retail cost of Intuit's *Tax Deluxe* reflects a \$20 rebate available by mail from the publisher. We should have said that only the basics of *TaxCut* and *TurboTax* software are downloaded.

marketing calls. Citing the need to "te" business, Oregon refused to file an official complaint I filed.
Kenneth W. Chard
Bend, Ore.

MICHAEL JORDAN D' SAY

Michael Jordan may be the best combination of athlete and pitchman in his greatest contribution, though, is the thing Jay Weiner commented about ("What do we want from sports heroes?" Sports Business, Jan. 1). For the many years of his career, Jordan acted like a gentleman and his opinions to himself. I am amazed at the effrontery of those social and political opinions, as they will be taken seriously just because they are famous. Michael Jordan burnishes his reputation by giving a few of his idiosyncrasies for sale. I wish a darn sight more were "just like Mike."

Curt Munson
Oklahoma City

Y: WHY THE FACTS E: ELUSIVE

It is doubtful that "Turkey oversaw a killing of more than 1 million Armenians," as you allege in "After a century, has Europe changed?" (Jan. 25). History is filled with massacres, genocide, and wars. World events between Turks and Armenians have never been resolved, because of the emotional nature of the issue and the tendency of both sides to claim political advantage from huddling. One would hope that Turkey could learn from its dark his-

tory that we will never make sense out of anything unless we start to love and respect one another.

Middat Yildiz
Rotterdam

FABLES OF THE BULL MARKET

"Is the stock market too high?" (Editorials, Jan. 25) supported my opinion that we are in a recession that few can see. If U.S. companies are "doing

better than most of their global rivals" and collecting an expanding share of global profits, why are earnings dropping? To gain a larger share of profits, U.S. companies should be becoming more efficient and more profitable, not just larger. If U.S. companies are earning a larger share of global profits, doesn't that also make them more susceptible to competition and downturns? Shouldn't this make investors more cautious?

That the stock market is financing



Other than being a little hard on himself, Ed here is absolutely right to expect innovation from Williams.

Don't take your lumps. Your business deserves personalized, customized solutions from America's only leader in both energy and communications. Your business deserves Williams. A very good idea ... even if it's right off the top of your head.

Williams

Energy • Communications • Leadership

1-800-WILLIAMS • NYSE: WMB

GIVE ME
ONE GOOD REASON

WHY

I SHOULD
INVEST
ONLINE

WITH

YOU
PEOPLE



Backed by Morgan Stanley Dean Witter & Co.
 "Best Overall Online Broker"—Barron's 1996.*
 "Best Overall Online Broker"—Barron's 1997.*
 "Best Overall Online Broker"—Barron's 1998.*
 Access to our coveted Equity Research.
 Free unlimited real-time quotes.
 We let you buy Treasuries 24 hrs a day. (A first.)
 Commissions as low as \$14.95.*
 Option to invest online.
 Option to invest via touch-tone telephone.
 Option to invest with a real, live human being.
 Option to invest via voice-activated system.
 24 hour customer service.
 Access to over 5,000 mutual funds.
 Blue Chip Baskets. Buy 10 stocks for \$39.95.
 No account maintenance fees.
 Your own personal finance home page.
 Free access to Zack's Research.
 Easy portfolio download into Quicken® and Money.*
 Free Reuter's news links related to your holdings.
 E-Mail alerts with Equity Research.
 Place orders 24 x 7 x 365.*
 Free interactive financial calculators.
 Free Thompson's financial research.
 Chart your budget with our interactive calculator.

26. Real time bid and ask prices for all U.S. Treasuries.
27. Customizable graphs.
28. Free unlimited check writing.
29. High level of internet security.
30. Free mutual fund selection tools.
31. No IRA setup fee.
32. No special software required.
33. Set up your own watch lists.
34. Free college planning worksheets.
35. Customizable quote baskets.
36. See what your money's doing every second.
37. Money market accounts, with tax-exempt choices.
38. Free IRA worksheets.
39. Free demo to try before you buy.
40. So easy to use, your kids can help.
41. Optional online application to speed things up.
42. Both Mac and PC friendly.
43. We can help you roll over your 401k.
44. Free online retirement calculator.
45. Margin accounts for those who qualify.
46. Free automatic dividend reinvestment program.
47. We hold billions in customer assets.
48. We can help you set up a Roth IRA.
49. "Best Overall Online Broker"—SmartMoney, 1998.*
50. You did see number one, didn't you?

Honestly, you wanna know the best reason? Empowerment. To make your own investment decisions. Hey,

all it takes is \$2,000 to open an account. You in?

www.discoverbrokerage.com 1-800-58-INVEST

DISCOVER BROKERAGE

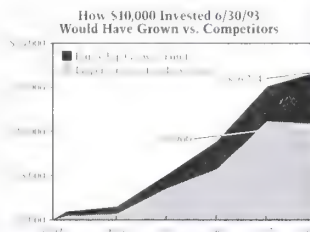
A MORGAN STANLEY DEAN WITTER COMPANY

*Barron's survey of online brokers 3/96, 3/97, 3/98. Barron's is a registered trademark of Dow Jones & Co. All rights reserved. Price shown for electronically-entered market orders for 1,000 shares of stock costing \$1 or more. Rates may vary for other types of orders, products, and services. Orders execute during market hours. SmartMoney, February 1998 report of their survey of 12 online brokers. SmartMoney is a registered trademark of SmartMoney, a joint venture of the Hearst Corporation and Dow Jones & Co. Quicken is a registered trademark of Intuit Inc. Microsoft Money is a registered trademark of Microsoft. © 1999 Discover Brokerage Direct Inc. Member NASD, SIPC.

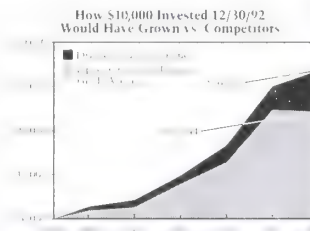
Before choosing your IRA, check out these proven performers.

The following two funds have received an overall rating of **five stars** —★★★★★— by Morningstar* and were rated among 2,744 and 1,655 domestic equity funds for the three- and five-year periods ended 11/30/98, respectively.

✓ The **T. Rowe Price Blue Chip Growth Fund** seeks long-term capital appreciation by investing primarily in established companies with strong market positions in growing industries. It may be appropriate for IRA investors seeking capital growth that may exceed inflation over time and who are willing to assume market risk.



✓ The **T. Rowe Price Dividend Growth Fund** offers investors long-term capital appreciation potential by investing in established, well-managed companies whose earnings and dividends are expected to grow over time. Because the fund focuses on the stocks of companies that pay dividends, which generally offer greater price stability and less volatility than those that do not, it provides a relatively conservative way to participate in the stock market.



For a free IRA Investing Kit and a prospectus, call
1-800-401-5035
www.troweprice.com

Invest With Confidence

T. Rowe Price



Blue Chip Growth Fund: 6.39%, 19.61%, and 20.61% are the fund's average annual returns for the 1-year, 5-year, and since inception (6/30/93) periods as of 9/30/98, respectively. Figures include changes in principal value, reinvested dividends, and capital gain distributions. Investment return and principal value will vary, and shares may be worth more or less at redemption than at original purchase. (Source for Lipper data: Lipper Analytical Services, Inc.) *Morningstar proprietary ratings reflect historical risk-adjusted performance as of 11/30/98. These ratings may change monthly and are calculated from the fund's 3- and 5-year average annual returns in excess of 90-day Treasury bill returns with appropriate fee adjustments and a risk factor that reflects fund performance below 90-day Treasury bill returns. The fund received 5 stars for the 3- and 5-year periods. The top 10% of the funds in an investment category receive 5 stars.

Dividend Growth Fund: 7.13%, 18.72%, and 18.70% are the fund's average annual returns for the 1-year, 5-year, and since inception (12/30/92) periods as of 9/30/98, respectively. Figures include changes in principal value, reinvested dividends, and capital gain distributions. Investment return and principal value will vary, and shares may be worth more or less at redemption than at original purchase. (Source for Lipper data: Lipper Analytical Services, Inc.) *Morningstar proprietary ratings reflect historical risk-adjusted performance as of 11/30/98. These ratings may change monthly and are calculated from the fund's 3- and 5-year average annual returns in excess of 90-day Treasury bill returns with appropriate fee adjustments and a risk factor that reflects fund performance below 90-day Treasury bill returns. The fund received 5 stars for the 3- and 5-year periods. The top 10% of the funds in an investment category receive 5 stars. The prospectus contains more complete information, including management fees and other charges and expenses. Please read it carefully before you invest or send money. T. Rowe Price Investment Services, Inc., Distributor.

IRA046476

Readers Report

domestic consumption and that "Americans increasingly rely on capital gains to maintain their spending" are clear indications that we are in trouble. If U.S. consumer needs prices in the stock market to go up substantially in order to be able to pay the bills, it doesn't mean that the stock market's higher value is justified. It means the higher value is "mass wishful thinking." The day will come when prices will be based on value instead of dreams: On that day much of the "debt" in the market will be lost, and debt carried by every American will not.

You meant for your editorial reassuring "No" to the question "Is the stock market too high?" I read a terrifying "Yes!"

Jim Southpaw

FINDING US ONLINE

BusinessWeek ONLY

The full text of Business Week, the Business Week Daily Briefing, and seven years of BW archives are available on the World Wide Web at:

www.businessweek.com

and on America Online at Keyword: B
To sign up for BW on AOL, call (800) 641-8418 and mention Business Week.

maven

Shopping for computer equipment? Visit **Maven** online Computer Buying Guide, for continuously updated ratings and price information. Go to Keyword: Maven on America Online or to the World Wide Web at:

www.maven.businessweek.com

HOW TO REACH BUSINESS WEEK

LETTERS FOR READERS REPORT

All letters must include an address and daytime/evening phone numbers. We reserve the right to edit letters for clarity and space and to use them in electronic and print editions.
Mail: Business Week, 1221 Avenue of the Americas, 39th floor, New York, NY 10020
Fax: (212) 512-6458
Internet: bwreader@businessweek.com
America Online: readersbw

SUBSCRIBER SERVICES

For individual subscriptions, corporate subscriptions, renewals, changes or problems, and single copies:
Phone: (800) 635-1200 or (609) 426-7500
Fax: (609) 426-7623
Internet: bwcustsv@businessweek.com
Library fee-based services: (212) 512-6704

REPRINTS AND COPYRIGHT PERMISSIONS

For custom reprints (minimum order of 1,000 copies):
(212) 512-3148
For all other permission or reprint inquiries:
Phone: (212) 512-4801
Fax: (212) 512-4938
Internet: www.businessweek.com/reprints/

~~was~~

~~no~~

know.

With information overload, media overkill and competitive overdrive, decisions rarely look black and white.

It's never been so important to really understand decision-makers and what makes them decide. We do.

Know more. Know DOREMUS.

porate sector.

doremus.com

DOREMUS

BY STEPHEN H. WILDSTROM

A FAILURE TO COMMUNICATE

Without a reliable wireless link to PCs, the Capshare scanner can't share much

The early days of the PC saw an explosion of radically different computers. Some, like the IBM Personal Computer, found fame and riches. Some, like the Apple III, disappeared into well-deserved oblivion. And some, like the Commodore Amiga, fell victim to bad luck or bad marketing.

Today, PCs have become boringly alike, but we're seeing a flowering of "information appliances," specialized devices that share information with computers either through a direct connection or over networks. Some, especially 3Com's PalmPilot, have demonstrated staying power. But others, from two-way pagers to combination cell phone/organizers, feel like experiments in search of a useful function.

ADVANTAGES. The CapShare 910 from Hewlett-Packard (www.capshare.hp.com) definitely falls into the latter class and shows both the potential strengths and pitfalls of these devices. It's designed to give the traveling exec a way to scan newspaper clippings, handouts of presentations, a storyboard of a proposed ad campaign, or just about anything else printed or drawn. The captured images can be transferred to a computer for faxing, sending

as E-mail attachments, or storing for future reference.

The \$699 device, which initially is being sold only to HP's commercial customers in the U.S. and Canada, has several advantages over traditional scanners. First, of course, it's portable and battery-powered. Second, it doesn't need to be attached to a computer to work. And third, it's equipped with clever software that lets you scan a

HP'S CAPSHARE 910

A handheld scanner with great specs, but...

SIZE	5.5" x 4.1" x 1.5" (140 mm x 105 mm x 38.5 mm)
WEIGHT	12.5 ounces
STORAGE	50 letter-size pages
BATTERY LIFE	Up to 100 letter-size scans with two AA NIMH batteries
COMMUNICATIONS	Infrared wireless for PCs, Windows CE handhelds, or IR-equipped printers; serial cables for PCs only.

wide page in columns that are automatically stitched together to re-create the page.

The CapShare takes advantage of a promising HP technology called JetSend, which lets devices learn each other's capabilities. The CapShare, for example, can send a scanned page to a computer running Windows 95, 98, or NT. A new version set for release in March (planned as part of a free upgrade) will connect with Windows CE handheld devices. CapShare can also send to an infrared-equipped printer, such as an

HP LaserJet 5P or 6P. Computers and printers call for completely different data formats, but JetSend understands what sort of device it is talking to and prepares data accordingly, without any intervention by the user.

Despite JetSend's advantages, the CapShare's major weakness is communications—which bodes ill for other appliances that function as freestanding devices but need to be able to share informa-

tech-support staffer the CapShare to talk HP OmniBook 900 not. Even then, the link was only some of the time. In contrast, I had no trouble sending scanned pages to an HP LaserJet 5MP printer. Unfortunately, the CapShare comes with a serial cable that allows trouble-free communications with desktop computers. But the approach is less convenient than a good wireless link.

RADIO HOPE. My struggle with infrared in a basic way that all information appliances share. Since they perform many functions, they must communicate with other appliances. PCs to be useful. Smartphones are and infrared doesn't work these days are practically useless.



tion with PCs. The CapShare's favored method of data transfer is an infrared link, technology that works well for TV remote controls but has lots of problems with high-volume data transfers required by computers.

No one has tried harder than HP to promote infrared communications on computers, but to little avail. At best, it requires a clear line of sight between sending and receiving units. And some types of light, especially bright fluorescents, can interfere with transmission. Virtually no desktop computers and few printers have any infrared capability. Nearly every laptop has an infrared port, but most notebooks ship with infrared communications disabled. I had to call an HP

Perhaps the best hope is a wireless radio technology called Blue Tooth that's being developed by an industry group led by Intel. Cordless communications, especially the extremely low power and short range of Blue Tooth calls for, is inherently more robust than infrared. If the technology can be made cheap and reliable enough, it could solve some of the communications woes of information appliances. Blue Tooth also has to clear some regulatory hurdles, especially rules that would prohibit the use of Blue Tooth-equipped devices on airplanes.

I'm a big fan of information specialized devices. The bottom line is that justing up with a clever appliance, or even a clever technology such as JetSend, is not enough. Simple, reliable communications among devices has to be part of the package.

FEVER

Money Fails To Satisfy in an Era of Excess

† H. Frank

35 • 326pp • \$25

\$50,000 CAR AND U'RE STILL NOT HAPPY

Are Americans in the grip of a luxury fever? Yes, says Robert H. Frank, an economics professor at Cornell University. His thesis: decades of income gains for those who have fueled lavish spending habits that wastes national income can't even make the affluent buy-happier.

Luxury Fever: Why Money Fails to Satisfy in an Era of Excess, Frank offers a host of examples to make his point about lavish consumption. The night suites at Aspen's Little Nell are booked up months in advance and are all 84 spots on Tavoca Tours' \$38,000-a-head round-the-world excursions. Yacht makers are so confident that used boats sell for close to original prices. Overall, luxury in the U.S. jumped by 21% in the total merchandise sales in just 5%. Luxury travel—deaverage spending of at least \$100—soared by 130% between 1975 and 1995. Luxury cars—those that cost more than \$30,000—account for 16% of all vehicles sold today, up from 13% in 1975. Vacation houses are booming, as is everything from cosmetic surgery to expensive cigars and wines. Frank has strong opinions on this. In 1995, the left-leaning academic authored an insightful book called *Passions at Work: The Greedy Take-All Society*. It decries how a few star performers are getting a lion's share of income in occupations such as sports, movies, and banking and finance. In *Luxury Fever*, Frank describes another effect of the same. And he follows up with a warning—but unconvincing—recommendation for what to do about it. Frank then seeks to establish that the American taste for luxury isn't really new. In higher consumer satisfaction evidence, he cites numerous studies taken through the decades that

show that the share of people who say they're "very happy," or express some other measure of subjective satisfaction, doesn't rise with a society's income. This has been true for Americans in surveys taken between 1972 and today—while per-capita income jumped by 39%. And it was true for the Japanese between 1958 and 1986, when their incomes quintupled. The surveys show that money buys more happiness, says Frank, only when a country moves from Third World-type poverty to middle-income status. After that, average life satisfaction doesn't seem to correlate with further accumulations of material goods.

The surveys, however, don't get at the entire issue, says Frank. Money does make people feel better off, he says, if it's spent on the right things, such as less-stressful lives, more time to exercise, and such public expenditures as cleaner air and water and roads that are less crowded. Again, he cites surveys to show that people consistently say they're happier when they have more of these benefits. All of the surveys that show no gain in overall satisfaction, he argues, reflect that Americans with their spending spree have gone off course.

Frank's argument so far is at least plausible, although it's not clear that happiness surveys really capture the subjective benefits that people derive from material goods. Someone may feel perfectly happy at a range of income levels but still appreciate the extras more money can buy. But Frank's solutions are sure to strike many as even less convincing. In sum, they consist of taxing the rich. The U.S. should install a sharply progressive tax on consump-

tion, he says—an approach that wouldn't discourage savings. The result: The frivolous luxury-spending boom would be curtailed. And any extra revenue could be devoted to collectively purchased quality-of-life improvements.

There are several major problems here, even if you agree with the broad concept. Preferring to talk about how a consumption tax would discourage all Americans from excessive spending, Frank isn't honest enough about who would pay the price. Essentially, he wants the top 10% or 20% to consume less so that all of us can live better lives. Maybe some affluent Americans would be willing to make that trade-off, depending on how much their personal spending had to fall. But without an honest debate, his proposals aren't likely to be given serious consideration.

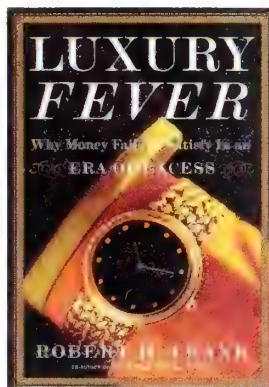
Another problem lies in some of the same satisfaction surveys that Frank cites. People may not report higher levels of happiness as their incomes rise, but they certainly do say they're unhappy when their incomes fall. Perhaps the rich really would be better off if they swapped extra material possessions for a higher quality of life. But many would resent the government's forcing them to do so.

There's also a timing issue. The reduction in consumption would begin immediately, when a tax was levied. The cleaner environment and improvements in infrastructure could take years to bring about. Many affluent households might not like to pay up now in hopes that they might be better off down the road. Besides, if they really felt strongly enough about reducing stress and enjoying, say, cleaner air, they could simply quit their high-powered jobs and move to small, uncrowded communities.

Still, a progressive consumption tax may merit serious consideration. For one thing, he says, it "could be made far simpler than our current income tax." That alone makes it a worthy idea, no matter what you think about Americans' buying spree.

BY AARON BERNSTEIN

Associate Editor Bernstein writes frequently on inequality.



IS LUXURY SPENDING OUT OF CONTROL? DO WE NEED A STIFF CONSUMPTION TAX ON BIG SPENDERS?

A vibrant red macaw is captured in mid-flight, its wings spread wide, against a dramatic, cloudy sky. The bird is positioned in the upper right quadrant of the frame. Below it, the ruins of an ancient civilization are visible, featuring several tall, weathered stone columns and a large, partially collapsed structure. The ground is covered in rubble and debris, suggesting a state of decay and abandonment. The overall scene conveys a sense of timelessness and the enduring presence of nature amidst human history.

knowledge of private and investment banking,
institutional asset management and private equity
makes us a world leader. Come and get to know us
better: www.ubs.com/synergy



THE BUSINESS WEEK BEST-SELLER LIST

HARDCOVER BUSINESS BOOKS

- 1 **THE 9 STEPS TO FINANCIAL FREEDOM** by Suze Orman (Crown • \$23) *Practical and "spiritual" steps for managing money.*
- 2 **THE JOY OF WORK** by Scott Adams (HarperBusiness • \$22) *Office pranks and ploys to fend off the cubicle blues.*
- 3 **TITAN** by Ron Chernow (Random House • \$30) *John D. Rockefeller Sr., the devil and angel.*
- 4 **THE CRISIS OF GLOBAL CAPITALISM** by George Soros (PublicAffairs • \$26) *The billionaire hedge-fund manager sounds the alarm.*
- 5 **THE ROARING 2000s** by Harry S. Dent Jr. (Simon & Schuster • \$25) *Why the good times won't go away.*
- 6 **THE 48 LAWS OF POWER** by Robert Greene and Joost Elffers (Viking • \$24.95) *Thoughts of Machiavelli, Talleyrand, and other power brokers distilled.*
- 7 **THE ELECTRONIC DAY TRADER** by Marc Friedfertig and George West (McGraw-Hill • \$34.95) *Hopping in and out of the market electronically.*
- 8 **WINNING EVERY DAY** by Lou Holtz (HarperBusiness • \$25) *Follow your dream, says South Carolina's new coach.*
- 9 **HOW TO BECOME CEO** by Jeffrey J. Fox (Hyperion • \$15.95) *Succinct rules for getting ahead.*
- 10 **WORK IN PROGRESS** by Michael Eisner with Tony Schwartz (Random House • \$27.95) *Disney's chief reflects on work, life, and mortality.*
- 11 **LOSING MY VIRGINITY** by Richard Branson (Times Business • \$27.50) *Sex, business, and rock 'n' roll, from the airline and music company executive.*
- 12 **RAVING FANS** by Ken Blanchard and Sheldon Bowles (Morrow • \$20) *Turning customers into your biggest boosters.*
- 13 **SELLING THE INVISIBLE** by Harry Beckwith (Warner • \$16) *A collection of bite-size lessons on marketing.*
- 14 **BILL GATES SPEAKS** by Janet Lowe (Wiley • \$16.95) *Snippets of speeches and writings by Microsoft's man.*
- 15 **INFORMATION RULES** by Carl Shapiro and Hal R. Varian (Harvard Business School • \$29.95) *Navigating the network economy.*

PAPERBACK BUSINESS BOOKS

- 1 **THE MILLIONAIRE NEXT DOOR** by Thomas J. Stanley, and William D. Danko, PhD (Pocket Books • \$14) *The ways of the wealthy among us.*
- 2 **THE SEVEN HABITS OF HIGHLY EFFECTIVE PEOPLE** by Stephen R. Covey (Fireside • \$14) *Habitually popular.*
- 3 **THE MOTLEY FOOL INVESTMENT GUIDE** by David and Gardner (Fireside • \$12) *The online duo puts it on paper.*
- 4 **DON'T SWEAT THE SMALL STUFF AT WORK** by Richard Carlson, PhD (Hyperion • \$11.95) *Methods for minimizing stress and conflict.*
- 5 **DIE BROKE** by Stephen M. Pollan and Mark Levine (HarperBusiness • \$14) *Forget about the will—and the conventional wisdom, says a financial adviser.*
- 6 **AGAINST THE GODS** by Peter L. Bernstein (Wiley • \$11.95) *Risk management in the making of the modern world.*
- 7 **THE 1999 WHAT COLOR IS YOUR PARACHUTE?** by Richard Nelson Bolles (Ten Speed Press • \$16.95) *The enduring job-search bible.*
- 8 **INVESTING FOR DUMMIES** by Eric Tyson, MBA (IDG Books • \$19.99) *From stocks to small business—with cartoons.*
- 9 **J.K. LASSER'S YOUR INCOME TAX 1999** by the J.K. Lasser Institute (Macmillan • \$14.95) *It's coming.*
- 10 **YOU'VE EARNED IT, DON'T LOSE IT** by Suze Orman with Linda Mead (Newmarket Press • \$15) *Financial planning—and mistakes to avoid.*
- 11 **THE MOTLEY FOOL INVESTMENT WORKBOOK** by David and Tom Gardner (Fireside • \$12) *"So where do I find stocks?" other queries, asked and answered.*
- 12 **THE ONE MINUTE MANAGER** by Kenneth Blanchard, and Spencer Johnson, M.D. (Berkley • \$11.95) *Three management techniques, conveyed in brief story form.*
- 13 **THE ONLY INVESTMENT GUIDE YOU'LL EVER NEED** by Andrew Tobias (Harcourt, Brace • \$13) *What's more, it's expanded and updated.*
- 14 **THE DILBERT FUTURE** by Scott Adams (HarperBusiness • \$12.95) *Prognostication from the prolific cartoonist.*
- 15 **PERSONAL FINANCE FOR DUMMIES** by Eric Tyson (IDG Books • \$19.95) *Lighthearted primer.*

BUSINESS WEEK's Best-Seller List is based on a survey of chain and independent booksellers that carry a broad selection of books on economic management, sales and marketing, small business, investing, personal finance, and careers. Well over 1,000 retail outlets nationwide are represented. Current rankings are based on a weighted analysis of unit sales in December.

Reviews and more are available on AOL (Keyword: BW) or www.businessweek.com (Click on BW Plus!)

HOT TYPE

DON'T LOOK FOR ANY NOVEL INSIGHTS INTO software's biggest mogul from *Bill Gates Speaks*, the No. 14 hardcover on this month's list. Author Janet Lowe has made a cottage industry out of packaging previously published quotes and descriptions of the rich and famous, from Warren Buffett to Oprah Winfrey.

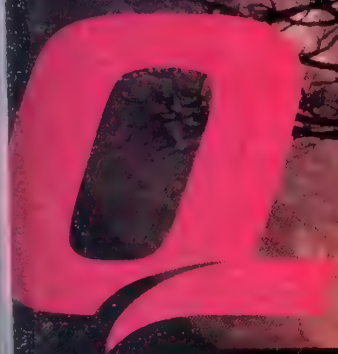
Still, since Gates has been interviewed extensively and rarely holds back—except when he's being grilled by federal prosecutors—there's plenty of engrossing material. Lowe's first three chapters cover Gates's early years as a computing child prodigy in suburban Seattle, as a Harvard University dropout, and as a young entrepreneur who loved fast cars as much as all-night software-coding sessions. The middle section focuses

on Gates's confrontational management philosophy and competitive drive. And, toward the end, we learn about the human being—who gamely sang "Twinkle, Twinkle, Little Star" on national TV at Barbara Walters' bidding.

Lowe clearly admires Gates, and her tone is often sweet. But she does poke fun at Gates's quirks. Early on, when dating a woman from a different city, he arranges to see the same movie on the same day so they can talk about it later on their cell phones.

That's fun stuff. But it's fluff. For real understanding of the world's most influential people, stick with a more serious bio, such as Stephen Manes' and Paul Andrews' *Gates*.

BY STEVE KATZ



Why does the moon
stay in the sky?

What makes
the stars twinkle?

How does
the Internet work?

Actually, it works very well. Maybe because
so much of it runs on Compaq. Four out of
the five most popular Web sites are powered
by Compaq. Hundreds of millions of hits
are handled by Compaq platforms every

Three-quarters of the top ISPs have standardized on Compaq
for their Windows NT based Web hosting. And if you've ever
received e-mail, chances are, we helped get it to you. To find out
how the Internet can help grow your business, feel free to ask the
advice at 1-800-AT-COMPAQ. Or visit www.compaq.com/moon.

COMPAQ Better answers.™

Office Better answers is a service mark of Compaq Computer Corporation. Windows NT is a registered trademark of Microsoft Corporation. All other names are trademarks or registered trademarks of the respective companies.

BY LAURA D'ANDREA TYSON

SOCIAL SECURITY: CLINTON'S PLAN IS RIGHT ON THE MONEY



WISE MOVES:
Dedicating the bulk of budget surpluses would shore up the fund, and investing some of it in stocks would prudently boost returns

Laura D'Andrea Tyson is dean of the Haas School of Business at the University of California at Berkeley and was President Clinton's chief economic adviser.

As a member of the first wave of the baby boom, President Clinton has offered the nation a set of innovative, centrist, and economically sound proposals to address the financing challenges for Social Security posed by his generation. His ideas will ensure that with a few sensible adjustments, Social Security will be there when both the baby boomers and the Generation Xers retire.

Clinton's plan to save Social Security tackles two distinct problems at the same time. By dedicating nearly two-thirds of projected budget surpluses to Social Security reserves over the next 15 years, it would increase the nation's net national savings rate by as much as two percentage points, reversing three decades of decline. Increasing America's paltry savings rate is the only sure-fire way to bolster future living standards while reducing our dependence on foreign borrowing. Using the hard-won budget surpluses for tax cuts or government spending won't do the trick; isolating them for Social Security will. In addition, the President's plan allows Social Security to cover its projected expenditures through 2055.

Moreover, the President's policies accomplish this while honoring the basic promise of Social Security: to provide every American worker with insurance against the adverse effects on retirement income of unforeseen developments like disappointing earnings, disability, or death of a spouse. President Clinton's plan also safeguards Social Security's three distinctive and morally compelling features: First, that benefits paid to individual workers are linked to average lifetime earnings. Second, that risk is pooled by providing extra benefits to low-income earners and families with children. Third, that Social Security retirement income is protected from the dangers of unanticipated inflation for the duration of retirement, however long.

UNLEASH PRESSURES. The President's plan also calls for investing a share of Social Security's reserves in the stock market. The returns from diversification are substantial, since the annual rate of return on equities has been about 7%, compared with about 2.5% on bonds over the long run. Under the President's proposal, all of Social Security's assets and the returns earned on the invested portion would be available to cover the program's benefits. In contrast, privatization pro-

posals that replace Social Security with mandatory individual retirement accounts would have quite different consequences.

Under such proposals, some or all of an individual's payroll tax payments would be deposited in individually owned defined-contribution accounts whose funds would be managed by private financial institutions. The funds would be removed from the social insurance system, thus no longer available to pool risk and transfer income between high- and low-wage workers, between families with and without children, between the able and the disabled during retirement. Instead of a guaranteed government benefit, Social Security payments to individual workers would depend on asset values, interest rates, and investment strategies as well as lifetime earnings. Finally, privatization would mean that individuals would pay sometimes hefty management fees to financial institutions.

What about the concerns voiced by Federal Reserve Chairman Alan Greenspan and others that the President's diversification would unleash political pressures on financial markets? Similar plans administered by state and local governments do not perform as well as privately owned funds for two reasons. Government funds are usually—and understandably—invested more conservatively, and on occasion they are allocated according to political as well as fiduciary considerations. There are some straightforward administrative fixes to the latter problem. Indeed, the federal government already has a model—the Federal Retirement Thrift Investment Board—which manages the savings of federal employees according to sound principles. Another approach would restrict Social Security's investment to private markets to index-fund instruments and would choose several private companies to manage these investments through competitive bidding.

Social Security is the crown jewel of government's programs. It does not need fundamental restructuring. It needs some additional revenues that the President's plan offers through an increase in saving—something long overdue and salutary for future living standards—and partial diversification. The baby boom helped produce the projected budget surpluses. Devoting a substantial fraction of them to fund Social Security will provide a strong retirement foundation for that generation and their children.



Do computer
makers believe that
every time they
come out with
new product,
I get a new budget?

Reality check: If you've invested in technologies like OpenVMS® or NonStop Himalaya®, you count on them to run your business—and they do it well. But with IT rapidly evolving, there are opportunities you'd like to seize. So Compaq is extending these

environments to incorporate elements like Web-enabled capabilities, Windows NT interoperability and 64-bit performance. Which means your IT infrastructure can remain firmly in place while new applications like e-commerce come on-line. We bring not just systems but software, services and solutions to make it all work together. So your past investments will continue reaping future returns.

To learn more, call 1-800-AT-COMPAQ. Or visit www.compaq.com/investment.

COMPAQ Better answers.™

data

101010

data

info

data

information

thou

29384fjcn/

data

010101

101010

data

informa

data
29384fjcn/

101010

101010

29384fjcn/

29384fjcn/

data

data

data

data

data

data

data insight analysis knowledge.....idea

When you look with a right tool, you find the information that makes a difference.

You're always searching for a competitive edge. But plowing through the numbers isn't enough. You need better information, and better information software. Like Seagate's Enterprise Information Management (EIM). A powerful suite of business intelligence tools that scales from the individual to the department to the enterprise. EIM includes Seagate Info™ for enterprise information analysis and distribution, Seagate Crystal Reports™ for faster decision-making, Seagate Worksheet™ to slice data cubes into intelligent bits, and Seagate Holos for data mining and scalable application development. When EIM is deployed throughout your enterprise, it delivers the power to locate information you need, help you analyze it from every angle, then display and communicate your ideas to the people who matter. After all, even the right information won't make a difference until it's in the right hands.

Make a Difference:

 **Seagate.**

Information the way you want it.

BY GENE KORETZ

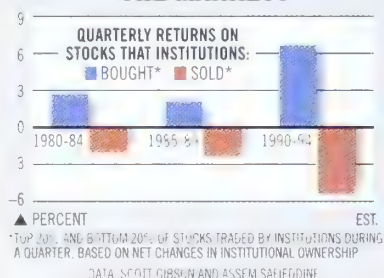
BIG INVESTORS HONE AN EDGE

Institutions' research seems to pay

Each year, equity institutional investors—mutual funds, pension funds, insurance companies, and the like—spend billions of dollars on security analysis to stay ahead of the game. Given the wide divergence in institutional performance, however, some critics have charged that such expenditures are excessive and produce little if any net benefits in trading profits.

In a new study, Scott Gibson of the University of Minnesota and Assem

DO INSTITUTIONS MOVE THE MARKET?



Safieddine of Michigan State University shed light on the issue by comparing changes in total institutional ownership of individual stocks during each quarter from 1980 to 1994 with stock returns over the same quarters.

Their finding: During the 15-year period, the 20% of stocks with the largest quarterly increase in institutional ownership (as a percentage of a company's outstanding shares) consistently posted positive returns. And the 20% of stocks registering the largest declines in institutional ownership consistently lost money. The gap between the top and bottom groups averaged 7.2% a quarter over the entire period—and a huge 12.1% from 1990 to 1994 (chart).

Of course, the fact that prices of individual stocks rose or fell in the same quarters that institutions as a group were buying or selling shares doesn't necessarily mean that the institutions' security research had paid off. Rather than reflecting new pertinent information that pushed prices in the "right" direction, it's possible that the very weight of institutional trading simply moved the market temporarily. After

all, institutional ownership of stocks rose from 20% of the market in 1980 to 40% in the early 1990s.

To figure out what was happening, the two researchers compared the timing of institutional ownership shifts with the timing of earnings forecast revisions by brokerage firms. They reasoned that if the institutions were truly bringing new information to the market, then their trading should on average anticipate subsequent earnings forecast revisions by the brokerage houses.

That, in fact, is exactly what they found. Net stock purchases by institutions in one quarter tended to precede upwards earnings forecast revisions by brokerage houses in the next quarter. Indeed, the ability of such institutional trading to anticipate the direction of future earnings forecast revisions has grown stronger in recent years.

The bottom line is that the big bucks that institutions as a group shell out for research activities do seem to pay off. Compared to individual investors—who, of course, buy the stocks that institutions unload and often rely on their friendly brokers for advice—the institutions appear to be ahead of the informational curve.

THE DOWNSIDE OF THE '98 BOOM

As the bull roared, most stocks fell

Institutional investors as a group may be better informed than individuals, but judging from the performance of the most popular stock market indexes, it appears that just about everyone should have done well last year. After all, the Standard & Poor's 500-stock index gained 26.7% for the year, the fourth year in a row of 20%-plus gains. Meanwhile, the Dow Jones industrial average was up 16.1% (not counting dividends), while the NASDAQ Composite jumped 39.6%.

A cakewalk for investors? Not according to Salomon Smith Barney equity strategists Jeffrey M. Warantz and John L. Manley Jr. While it's hardly news that the big gains last year were racked up by the largest-cap stocks, they point out that the market boom was far more narrowly based than most people appreciate.

On average, they report, stocks with a capitalization of more than \$20 billion at the start of the year climbed by 25.9%, and those in the \$5 billion-to-\$20 billion range rose by 6.2%. But the average

stock in other cap groups—including those valued from \$2 billion to \$5 billion—declined in price, with those under \$1 billion sliding more than 24%. And two-thirds of all U.S. stocks actually lost the year in the loss column.

As for the S&P 500's surge, though, analysts note that just 10 stocks accounted for 43% of the gain, 25 stocks for 75% and 33 stocks for over 75%. In the end, they say, 1998 will be remembered as the year "the largest stocks had a big performance party, and everyone else stayed at home."

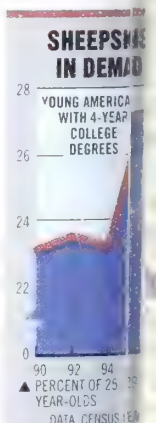
GROWING GENDER GAP ON CAMPUS

Women's lead in enrollment is growing

If education is the key to America's future and the well-being of individual citizens, the nation's youth—particularly young females—surely have gotten the right message. The Labor Dept. reports that a record 71% of 1997 high school graduates were enrolled in colleges and universities in the fall of that year, up from 62% two years earlier. And two-thirds of that number were attending four-year institutions.

As was the case in earlier years, females spearheaded the influx into college ranks. Over 70% of female high school grads enrolled in college last year, far more than the 63.5% of the male counterparts who did so.

Meanwhile, the impact of these trends on the educational credentials of adults has become increasingly apparent. According to Census Bureau data, the share of those in the 25 to 29 age group with four years of college and beyond rose from 23.2% in 1991 to 27.3% in 1998, with most of the increase once again reflecting sharp advances among young women. Although a greater percentage of young men than young women have traditionally held college degrees, this situation changed in the 1990s. By last year, 29% of women in the 25 to 29 group were graduates of four-year institutions, compared with just 25.6% of



JAMES C. COOPER & KATHLEEN MADIGAN

QUIRK HERE, A QUIRK THERE, AND 1999 CAME IN LIKE A LION

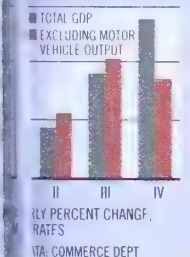
Consumer-friendly weather and a GM contract helped turn the trick

U.S. ECONOMY

The Commerce Dept.'s news that the economy grew at a strong 5.6% annual rate last quarter turned a lot of, especially those of many economists who are looking for a 1999 slowdown. That quarterly pace was the best in 2½ years, and it suggested strong momentum heading into the new year.

Be sure, the economy is in its best shape in years. Even with widespread global weakness in real gross domestic product grew nearly 4% for the second year in a row, with both inflation and unemployment at the lowest levels in a generation. Despite earlier fears, the U.S. economy appears to have held on the turmoil outside its borders. Yes, exports declined, but cheaper imports have lifted U.S. economic power. And the global financial meltdown has increased the attractiveness of U.S. assets.

OUTPUT LIFTED END GDP GROWTH



But before you get too excited about last quarter's growth rate, take a close look at the GDP data. While growth was fundamentally solid, it was clearly exaggerated by a host of special factors, including a rebound from the strike at General Motors Corp. and generous sales incentives by car dealers. Also, unseasonably mild weather boosted

production, and a surge in aircraft exports and other caused a spike in the export data. It's a good bet that a reversal of those influences will mean a much weaker growth rate this quarter, similar to the swing from 5.5% to 1.8% between the first and second quarters of 1998, when first-quarter growth was inflated by the unusually warm winter caused by El Niño. As then, an average of the fourth and first quarters will likely give a truer reading of the underlying pace.

THE BIGGEST

special factor last quarter was the GM strike, which added 2.1 percentage points to the quarter's overall growth rate (chart). Commerce said that, excluding auto buying and additional inventories, real GDP would have grown 3.5%. Clearly, consumers' love of the automobile boosted consumer spending. Fourth-quarter outlays rose at a 4.4% annual rate, but vehicle purchases

soared 69%, accounting for about a third of the quarter's gain. The advance capped a 1998 spending spree, unlike any since 1983. In fact, households, whose spending makes up two-thirds of the economy, accounted for 85% of last year's real GDP growth. In the first quarter, though, vehicle sales are unlikely to rise at all. January sales were strong, but still below the 16.3-million average pace in the fourth quarter.

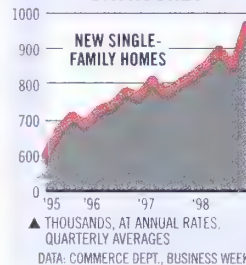
The strike distortion also affected equipment investment. On the surface, business outlays for machinery and high-tech gear jumped 21%, but that followed a 1% drop in the strike-affected third quarter, which was the first quarterly dip in seven years. The swing is illustrated in the data on investment in transportation equipment, which plunged 33% in the third quarter and then soared 65% in the fourth, the largest quarterly swing in that sector in 27 years.

The fact is, equipment investment is slowing. Outlays rose at a 9.4% annual rate in the second half after growth at a 26.3% pace in the first half. Even high-tech spending grew more slowly in the second half than it did in the first half. Companies are undoubtedly paring their capital budgets in the face of past rapid capacity growth, costlier financing, and softer profits.

PROFITS ARE ESPECIALLY CRITICAL to the 1999 outlook, not only for capital spending but for the overall economy because of the way they will affect both hiring and the stock market. In particular, households are relying increasingly on market gains to fuel spending and home buying (chart). Commerce data show that operating profits through the third quarter were below their year-ago levels, and early company reports on the fourth quarter suggest a small gain that is nowhere near what would typically be expected in an economy growing this strongly.

In addition to the GM strike, another key distortion in the GDP data was the unusually mild weather in November and part of December that boosted both residential and nonresidential construction. A return to normal weather this quarter means that, after the government's seasonal adjustment of the data, con-

HOME SALES SKYROCKET



struction could well be a drag on first-quarter growth.

Certainly, housing is sturdy, buoyed by lower mortgage rates and stock market gains, but probably not as robust as the fourth-quarter's 10.1% advance in residential construction suggests. New single-family homes sold at an annual rate of 978,000 in December, after a record 1.02 million rate in November. The weather's impact was clearest in business construction, which posted a 5.5% gain last quarter, even though contract values have plunged 19% from their May peak.

THE FINAL ANOMALY in the GDP data is exports. Commerce says that shipments overseas suddenly jumped at a 19% annual rate last quarter, the largest hike in two years. That followed three quarterly declines, even though the world outside the U.S. is probably in worse shape than it was at the start of 1998.

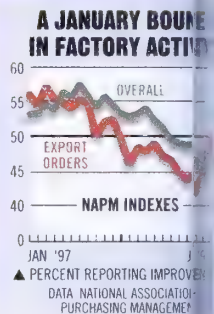
The GM strike explains some of the surge. Vehicle exports leaped 72% last quarter, after sinking 33% in the third quarter. Also, a jump in volatile aircraft shipments pushed up the export gain. By themselves, aircraft typically account for about one-fourth of the quarterly ups and downs in overall export growth.

For 1999, new weakness in Latin America, the destination for 21% of U.S. exports, will cut foreign demand. Slower growth in Britain and the euro zone, which take 22%, will be another drag. And Asia, about 22%, will not offer much help either.

Despite the apparent export exaggeration, though, foreign shipments may well be stabilizing after the sharp drop in the first three quarters of the year. That would explain why manufacturing activity appears to have firmed up in January. The nation's purchasing managers reported that their January index of factory activity rose from 45.3% in December to 49.5%, the highest level since last June. However, the index remains below the 50% mark, meaning that factory activity is still declining, and the January increase was from December's eight-year low.

The most encouraging part of the purchasers' report was a second straight rise in the index of export orders (chart). That suggests that the worst of the drag from the Asian crisis, which led to most of the factory sector's 1998 weakness, may be ending.

If that's true, 1999 started off with some relief for 1998's weakest sector. But as was true last year, the outlook will be determined by what happens to domestic, not foreign, demand. The news: The fourth-quarter data show that domestic demand was firm heading into the new year—but not as robust as the top-line number would suggest.



SWITZERLAND

A DIP IN EXPORTS HOBBOLES THE RECOVERY

When world business leaders gathered in Davos to study the sorry state of regional economies, they did not have to look far to see the effects of weakness. Switzerland struggled throughout most of the 1990s. And now, just as its recovery finished a second year of small gains, a growing trade imbalance threatens the outlook.

The data at yearend contained some optimism for Switzerland. In December, unemployment was at a low 3.4%, from 5% a year earlier (chart), car sales surged 27.2%, and the Swiss purchasing managers' index increased for the third month in a row, only to fall sharply in January. Low interest

rates and rising real wages had boosted domestic demand. So real gross domestic product likely grew 2% in 1998, after a 3.4% gain in 1997. By comparison, in the previous six years, Swiss GDP hardly grew at all.

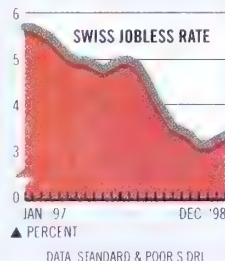
But economists are marking down their 1999 forecasts, expecting Swiss real GDP to grow 1.5%, instead of 1.7%. The main drag is a worsening trade outlook. The trade deficit in December totaled 1 billion francs (\$760 million), from a surplus of 475 million francs a year ago. Exports fell 4.1%, with sales to Japan off a large 15.7%. But rising domestic demand lifted imports by 2.6%.

Switzerland did not join the

euro zone, and its exporters are grappling with a stronger franc. After slipping 6% against the U.S. dollar in the first half, the franc soared from July to October as investors fled emerging-market currencies to safe havens like the dollar and franc. As a result, Swiss goods are less competitive in global markets, where demand was already drying up because of recessions. The franc has weakened a bit since October, in part because investors switched to the new euro.

The Swiss National Bank, which cut interest rates in 1998, has indicated that it will remain "flexible" on monetary policy. That means the central bank will cut rates further if the franc starts rising again—good news in a world where exports account for a full 44% of the economy.

UNEMPLOYMENT IS TRENDING LOWER



SOME OF LIFE'S BEST MOMENTS COME FTD™



...e this melts
your heart,
Love always.

The FTD® I'm Sweet For You™ Bouquet

Valentine's Day is February 14. Stop by or call your local
FTD Florist, dial 1-800-SEND-FTD or visit us at ftd.com.



SATISFACTION
GUARANTEED

®"M", "M&M's", and the "M&M's" Character(s) are registered trademarks and used under the authority of the owner.
©Mars, Incorporated 1999. Manufactured and distributed under license by FTD.

THERE'S NEW LIFE

A surge in capital spending has experts upping '99 growth forecasts

Six months ago, Ryder System Inc. was resigned to a mediocre 1999. Its forecast was for the U.S. economy to slow to an anemic 1% growth rate. But five weeks into the new year, Miami-based Ryder has thrown that prediction away. Business "is as strong as we have ever seen it," exults Chief Executive M. Anthony Burns.

And as Ryder goes, so goes the nation, since deliveries by its 175,000-truck fleet reflect everything from manufacturing to retail to capital equipment. "We're a very good indicator of demand," says Burns. "Not only are people seeing good business today, they're even optimistic about the longer term."

Ryder isn't alone in doing a double take. Just last December, the consensus forecast of 55 economists surveyed by BUSINESS WEEK was for growth of just 1.9% this year, half the pace of the previous three years. But in the wake of a Jan. 29 Commerce Dept. report on gross domestic product that showed the economy streaking through the final quarter of 1998 at a blowout 5.6% annual rate, more and more forecasters are betting on a year of 3%-to-4% growth. "We're in the midst of the greatest business expansion in U.S. history," declares Allen L. Sinai, CEO of Primark Decision Economics Inc. "And there's no end in sight."

What's propelling the expansion? Consumer spending continues to sizzle: January sales of cars and trucks were almost double analyst predictions. And retailers are seeing surprising demand, too. "We had planned for sales to be flat

in January, but they were up 4.3%—and the first few days of February are looking good, too," says Joseph R. Ettore, CEO of Ames Department Stores Inc. in Rocky Hill, Conn., the nation's fourth-largest discount retailer.

But the real surprise is the continuing growth in capital investment. Last summer, economists were seeing signs of a capital-spending slowdown. Now, Corporate America is betting its capital budget that the expansion will continue. In particular, companies are plowing money into technology to improve efficiency. In the fourth quarter, capital spending rose an astounding 21%. And once the rebound from General Motors Corp.'s strike is figured in, that hike is still more than double expectations. "One of the biggest surprises of this amazing economy is the continued substitution of capital for labor," says David A. Wyss, chief economist for Standard & Poor's DRI.

"HUGE MOMENTUM." There's more to come. Although corporate earnings and cash flow have been sluggish, new orders for capital goods jumped 7% in December. And while total capital spending probably won't approach 1998's spectacular 17.5% increase, it should match the 11% average annual growth rate for the 1990s. That was the strongest capital investment cycle in 50 years. Notes Bruce Steinberg, chief economist of Merrill Lynch & Co., who himself was much more bearish in early December: "There's huge momentum going into '99."

Nowhere is the momentum stronger than in high tech, where capital spending rose a stunning 32% in 1998 and

has averaged 19% a year since 1990, according to Steinberg. Companies are looking to technology to boost earnings. That's the best profit insurance in an economy where global competition is keeping prices down and a 4.3% unemployment rate is putting upward pressure on wages.

Meanwhile, the ever-expanding telecommunications and the explosive growth of e-commerce continue to spur early investment in the telecommunications industry. Ameritech CEO Richard Notebaert says carriers will keep adding switches, routers, and other equipment to meet the growing demands of a high-line economy.

The high-tech investment boom may be key to sustaining rapid growth without driving up prices from rising wages. That is, of course, if productivity gains continue. The signs so far are encouraging. The 1990s' investment boom has raised the nation's long-term productivity growth rate to 2% and doubled the rate in the 1970s and 1980s. Together with a labor-force growth of 1.1%, the higher productivity means the economy can grow 3% a year or more without rekindling inflation. "I don't see a once- or twice-in-a-century downturn," says David M. Jones, chief economist at Aubrey G. Lanston & Co., a New York bond trader.

The continuing growth in overall capital spending is all the more remarkable considering the state of traditional manufacturing. Factories have taken a hit from Asia: Ailing economies are buying fewer U.S. products, flooding the country with cheap im-

The Economy That Keeps Surprising

DATA: BUSINESS WEEK, OFFICE OF MANAGEMENT & BUDGET

	1999	
	GDP	CPI
BUSINESS WEEK SURVEY CONSENSUS FORECAST	1.9%	2.8%
OFFICE OF MANAGEMENT & BUDGET FORECAST	2.2	3.1
ACTUAL	3.9	3.2

Notes: The BW Consensus is based on an annual survey of economists conducted in 1998.

THE OLD BOOM



But even manufacturing is starting to show new signs of life. The National Association of Purchasing Management reported on Feb. 1 that its monthly index of manufacturing activity jumped four points in January, to 49.5, just shy of the 50 benchmark that signals increased output. The NAPM also said that export orders in January rose to the highest level in 13 months.

"Even the industrial sector may not be as bad as we thought," says Merrill Lynch's Steinberg. One reason is that multinationals are at last seeing a firming up of sales in emerging markets. That has companies such as Eastman Kodak Co. sounding bullish. The company "is as strong as we've ever been going into the beginning of the year," says President Daniel A. Carp.

STOCK PULLBACK? So are all the signals that made economists cautious last fall gone? Not really. Charles L. Hill, research director of First Call Corp., points out that profits are not growing nearly as quickly as stock market valuations. In the first quarter, the analysts polled by First Call figure that earnings of the S&P 500 companies will come in around 5% above year-earlier levels, and the second quarter doesn't look much better. "We just had a year of good GDP and lousy corporate earnings," says Hill. "This is our outlook for the first half."

That raises a concern that was prevalent last fall: the possibility of a pullback in the stock market. Economists including Federal Reserve Chairman Alan

Greenspan worry that a second consecutive year of anemic profits could finally rein in the bulls, curbing both capital spending and consumer spending. Janet L. Yellen, head of President Clinton's Council of Economic Advisers, frets that even a leveling off of stock prices could have a chilling effect on the economy. "I think you would see a slowdown in consumption," she says. "And with capacity utilization not being very

	1997				1998				1999			
	UNEMPLOYMENT	GDP	CPI	UNEMPLOYMENT	GDP	CPI	UNEMPLOYMENT	GDP	CPI	UNEMPLOYMENT	GDP	CPI
%	5.4%	2.2%	2.3%	4.9%	1.9%	2.1%	4.9%					
	5.4	2.0	2.2	5.0	2.0	2.3	4.9					
	4.7	4.1	1.5	4.5	?	?	?					

February of that year. The GDP and CPI figures are fourth quarter over fourth quarter. The jobless rate is fourth-quarter average.

high, you could see a slowdown in investment spending."

For now, many execs only see the silver lining on the economic horizon. Alfred M. Zeien, CEO of Gillette Co., which took a beating in Asia, expects dramatic gains in 1999. Although the company reported a weak 4% earnings increase for the fourth quarter, Zeien

predicts "a return to 15% to 20% earnings-per-share growth" by the second half of this year. And Ames's Ettore shrugs off a buying slowdown if Wall Street swoons—so long as wages keep outpacing inflation: "We cater to the working-class customer, who is not as affected by a stock market crash."

Such corporate confidence augurs well

for a continuation of the capital market boom. With consumers feeling as upbeat these days, the U.S. economy looks poised to prove the pessimists wrong yet again.

By Owen Ullmann in Washington with William C. Symonds in Los Angeles, Roger Crockett in Chicago, Diane Sawyer in New York, and bureau reports

LETTER FROM DAVOS

AS THE SNOW FALLS, BIGWIGS TALK OF BIPOLARITY

The mood is upbeat overall at the premier economics powwow

A meter of snow (that's three feet to Americans) fell on Davos, Switzerland during this year's World Economic Forum powwow of corporate titans, political poohbahs, digital divas, and pushy pundits, but it couldn't bury the tone of guarded optimism that prevailed. Not even a street protest against the evils of the wired global economy—organized, ironically, over the Internet—or New Jersey Governor Christy Whitman's broken leg could change the mood (Hillary made it down the slopes in one piece last year, Clintonites noted).

The Americans were pumped up on high growth, Europeans clucked over their blessed euro, and even the Asians (minus the Japanese) were surprisingly upbeat about economic recovery.

Yet, a dark force did hover. There were the usual demons: hedge funds, market volatility, overcapacity, and emerging-market debt. But this year, it was the U.S. stock market that had everyone atremble. Here's the mantra: The market is a bubble that will burst, kill consumer spending, and send America into recession.

Americans in Davos could feel smug at learning anew that the Europeans still don't really get it—the high-tech thing, the productivity surge, the Internet, the budget surplus, entrepreneurialism. The bad news is that, well, it could be they're right about the bubble.

There were, as always, a passel of

surprises. Vice-President Al Gore, long regarded as a stiff in public, gave a darn good speech about the evils of protectionism. Under Secretary of State for Economic Affairs Stu Eisenstadt, another reputed stiff, was out on the dance floor Saturday night as a band from Mauritius rendered YMCA. Scott

architecture to curb the volatility led to the Asian crisis. Treasury Secretary Robert Rubin, in a relentlessly analytical speech, threw cold water on the entire enterprise. Are hedge funds bad guys? Naw. Capital flight from emerging countries starts financial crisis. Who controls the answer? Nope. Getting domestic policy right is the way to success. Sure, there's a need for more international transparency and safety nets. But "bailout schemes" that try to curb short-term capital flows or tie currencies into the dollar are very difficult to do in real life. In any case, wasn't it Rubin's boss, President Clinton, who first called for a new international financial architecture?

So what were the key buzzwords

Davos? Deflation and reflation. That's another saying that IMF policy is wrong unless you're Bill Clinton. Target zones and bipolarity in the mental sense but in a global über alles way.

Silicon Valley talked about "cannibalization." Intel's CEO, Andy Grove, and Packard CEO, John Platt and Sun's CEO, Scott McNealy talked about the delicacy of shifting to the "physical" distribution of goods, to you.

A bit of "Davos tique" is setting

this annual networking nirvana. Hotels still have switchboards, going into the Web is a nightmare. Panels seem to have the same old familiar spiels. And topics as "Responsible Globality" bog down the mind. But where else can you find Yassir Arafat, Bill Gates, Klaus Schrempp, Yevgeniy Primakov, Warren Beatty in one day and send the night away?

BY BRUCE NUSBAUM

Editorial-page editor Nussbaum hit by a snowball at the demon-



TAKING IT TO THE STREET: Activists demonstrate against "globalization"

McNealy lectured Netizens on compiling "consumer dossiers" on people and invading their privacy. Ted Turner gave a lecture on philanthropy. And Newt Gingrich admitted he was still mystified as to why his model for the past election failed. "Republicans need to look at Jesse Ventura's victory." O.K.

RUBIN'S REALISM. The antimarket rants of Malaysia's Prime Minister Mahathir Mohamad that sounded so extreme in the past have become conventional wisdom this year. The Europeans led a push for a new international financial

By Howard Gleckman

THE BABY BOOM THAT ATE THE BUDGET

President Clinton has proposed a fiscal 2000 budget with hundreds of little ideas—and one big one, fixing Social Security. So, the President's millennial fiscal plan still suffers from a fatal flaw: Rather than restrain the growth of federal programs soon-to-be retired Baby Boomers, it merely devises ways to fund them.

So, Clinton winds up continuing the trend of making the federal budget plan a "gray budget." And the increasing share of federal spending is shifted to the nation's oldest citizens. That crowds out other

programs. Clinton's plan to pay down \$2 trillion in debt over 15 years, by 2004, annual interest payments will be \$70 billion less than in 1998, the Congressional Budget Office predicts. That's just about the same amount by which Medicare will have increased. By 2004, Social Security will have risen \$110 billion.

In Clinton's 2000 budget, more than \$800 billion, or 41% of all federal spending, would go to fund just three programs in 2004: Social Security, Medicare, and the portion of Medicaid earmarked for the long-term care of the impoverished elder-

ment in everything else society needs?

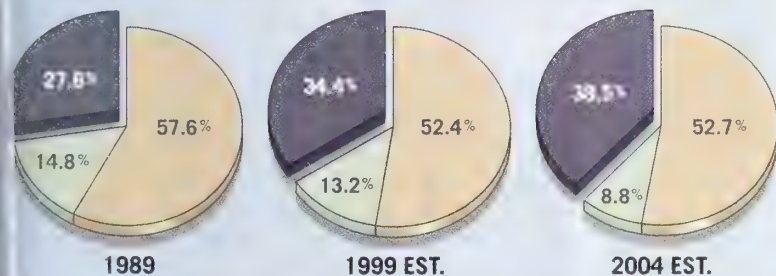
Clinton, like his recent predecessors, has decided that this choice is best made by his successors. He has proposed some modest Medicare fixes. But he has deferred any fundamental restructuring of the program until a Mar. 1 report from a national reform commission. Even if the panel agrees on a plan for fixing the program, it could be a long time before a partisan Congress can muster the will to make it law. Besides, GOP lawmakers have a different focus: huge tax cuts.

But the choices are clear: Future

THE GRAYING OF THE BUDGET

SPENDING AS A PERCENT OF OUTLAYS FOR KEY GOVERNMENT PROGRAMS

■ SOCIAL SECURITY AND MEDICARE ■ OTHER SPENDING PROGRAMS □ INTEREST



DATA: OFFICE OF MANAGEMENT & BUDGET



PATIENT: A Medicare fix can wait

options, such as cutting taxes or putting more money to educate America's children to keep them competitive in the global workforce of the 21st century.

This trend is beginning to reach troubling proportions. Already, nearly one-third of all federal spending is earmarked for the elderly through Social Security, Medicare, and Medicaid. If measures aren't enacted to curb the growth of these programs, when baby boomers reach staggering four of every five in the federal government column will go to such programs. Says a Brookings Institute senior fellow C. Eugene Steuerle: "We're building an unbalanced government that will be increasingly devoted to consumption by baby boomers."

In the short term, this burden will be so apparent because it will be somewhat offset by substantial savings in interest payments on the trillion national debt. If the gov-

ernment follows Clinton's plan to pay down \$2 trillion in debt over 15 years, by 2004, annual interest payments will be \$70 billion less than in 1998, the Congressional Budget Office predicts. That's just about the same amount by which Medicare will have increased. By 2004, Social Security will have risen \$110 billion.

ly. And that doesn't count an additional \$700 billion Clinton wants to spend over the next 15 years to help finance a Medicare fix. **MANY FANS.** By 2009, the beginning of the retirement wave for 76 million boomers, spending for those three programs will exceed \$1.2 trillion, or about half of all government expenditures. This has put the gray budget on a trajectory to reach that 80% mark halfway through the next century.

What can be done? Social Security and Medicare are among the nation's most popular programs because everyone expects their due at retirement. That's why Clinton and most members of Congress would rather find ways to finance the programs than trim their benefits. And few dispute that needy seniors deserve government support. But should spending on the elderly be so high—now and in the next century—that it curbs invest-

Social Security benefits will have to be trimmed. And, boomers will have to rely less on government benefits and more on their own bank accounts to pay for health care. As a result, they will need to take more responsibility for generating their savings for retirement.

The President deserves credit for focusing so much attention on Social Security's long-term solvency. But the real key for both Social Security and Medicare is finding how to scale them back so they provide a minimum, basic benefit for all Americans but still offer sufficient protections for those who need them the most. Until politicians of both parties tackle those issues, don't expect any real solutions to the single most important domestic issue facing Washington policymakers today.

Gleckman, a baby boomer, covers economic issues from Washington.

COMMENTARY

By Susan B. Garland

MICROSOFT OUTSMARTS ITSELF

MICROSOFT
ON TRIAL

When Microsoft Corp. entered U.S. District Court to defend itself against a Justice Dept. antitrust suit in October, it had what many people assumed would be a surefire defense in one area—a June U.S. Court of Appeals ruling that upheld the software maker's right to combine products as it saw fit. The higher court said that as long as the integration provides "some technological value" that can't be achieved if users combine the features themselves, there was no problem. That ruling, legal experts said, would make it all but impossible for the government to prove that Microsoft violated tying laws when it combined its Internet Explorer browser with Windows.

So much for the experts. Throughout, the government has been able to produce evidence disputing Microsoft's claim that integrating the browser was simply the next step in the Windows' evolution—and not a way to force computer makers to offer its browser rather than one from Netscape Communications Corp.

SERVICE BREAK. What's worse, for Microsoft, the recent setback on integration is just one in a series for the company's defense. Even though it is now Microsoft's turn to call witnesses and put forth its version of events, it is the government that seems to be scoring most of the points in recent weeks. "It's certainly not the start that Microsoft envisioned," says Washington antitrust attorney Timothy J. O'Rourke.

Perhaps most discouraging, Microsoft's own witness, Senior Vice-President James E. Allchin, has provided some of the most damning testimony. Under cross-examination by Justice attorney David Boies, Allchin conceded on Feb. 1 that a consumer with Windows 95 could install Internet Explorer later and achieve many of the features offered in Windows 98, with its integrated browser.

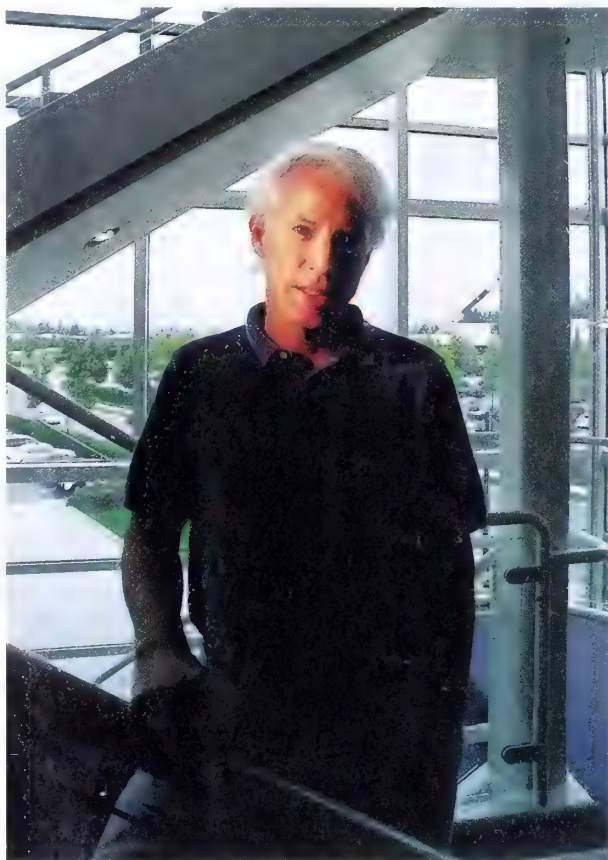
Washington antitrust attorney James R. Loftis III says Allchin's testimony was "another nail in the coffin of Microsoft's argument that [Windows 98] is integrated and not separate products."

Allchin's testimony also raised serious questions about Microsoft's credibility, from which it may not easily recover. On

After Boies pointed out to Allchin the inconsistencies in his videotaped testimony, U.S. District Judge Thomas J. Field Jackson noted that "doubt is cast 'on the reliability' of the tapes. At press time, Microsoft was planning to restage the demonstration.

By itself, the video snafu could be viewed as just a minor embarrassment, but part of a pattern that leaves the impression that Microsoft is trying to cover up its mistakes. The Microsoft witnesses who testified in the trial fared badly under cross-examination. Boies at one point asked Richard L. Smith, Microsoft's executive vice president, which seemed to contradict his current testimony. When they insisted that they didn't imply Microsoft's power, Boies asked him a 1982 article in which Schmalz wrote that "high profits do not create barriers to entry." To that, Smith replied, "My immediate thought is 'What could I be thinking?'"

Another Microsoft witness, Paul Maritz, wound up giving some ammunition to the government's allegation that Microsoft attempted to



ALLCHIN: Damning testimony from a Microsoft exec

Feb. 2, Boies began a cross-examination aimed at discrediting a videotaped demonstration that Microsoft had entered into evidence. The purpose of the tape was to prove that government witness Edward W. Felten of Princeton University was wrong when he asserted that he could remove browsing capability from Windows 98 without harming the system.

browser market with Netscape 2.0. On Feb. 21, 1995, meeting Boies' attorney Maritz to concede that Microsoft tried to persuade Netscape to become less of a direct rival by using Windows technology in its browser.

Most worrisome for Microsoft is Boies' demeanor during the cross-examinations. Several times

Even if bundling is ruled anticompetitive, finding a remedy

tz to answer Boies with a sim-
 "no"—something he never did
 ment witnesses, even when
 .wyers sought his help. He also
 Schmalensee's reasoning sever-
 many ways, he has been re-
 skepticism with their argu-
 s William E. Kovacic of George
 University Law School.

ne widening crack in the inte-
 nse that could prove most
 Microsoft. To show a viola-
 rust law, the government must
 Microsoft's browser and operat-
 ure separate products and that
 be consumer demand for each
 it end, Justice has introduced
 oft E-mails showing that
 oft execs monitored the mar-
 the two products individual-
 ary, 1996, E-mail, for instance,
 airman William H. Gates III
 ing browser share is a very,
 nt goal for us."

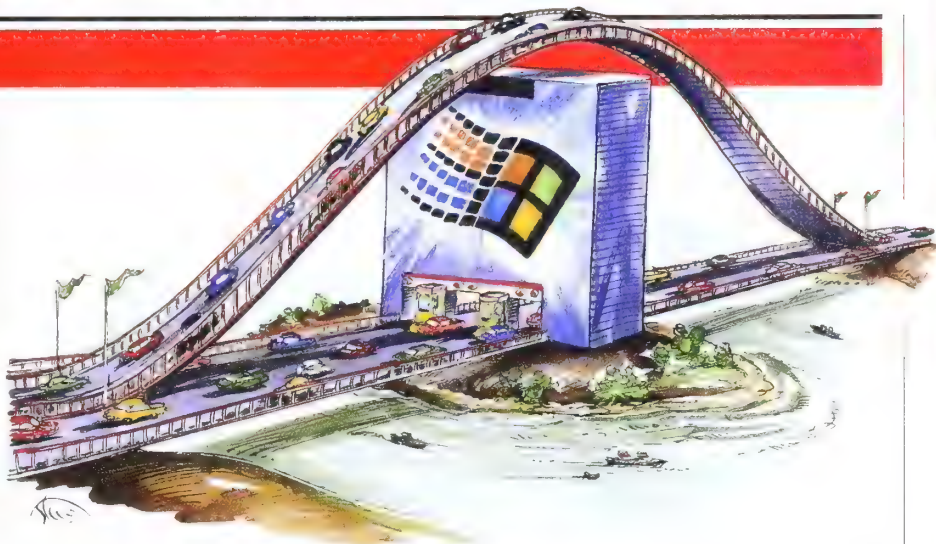
. As for consumer demand,
 om Packard Bell NEC, Gate-
 wlett-Packard all testified that
 ke to make the browser
 elves. "I would prefer that
 choice to make," said Scott
 ng Corp. executive who testi-
 company chose Netscape as
 because it could work on top
 ng systems.

Allchin insisted he wanted to
 rnet Explorer because it
 mology," Justice has intro-
 s indicating that the company
 ended to foreclose competi-
 executive in February, 1997:
 ery hard to increase browser
 on the merits of IE alone. It
 important to leverage the
 tem) assets to make people
 of [Netscape]."

ll considerable evidence on
 e on the issue. And even if
 his point, finding the right
 be a headache. Does Judge
 a company to pull apart its
 used by millions of con-
 s he really ready to dictate
 e in an operating system?
 ions, Microsoft may still
 Windows fully intact. Then
 Jackson doesn't seem one to
 way out.

s correspondent Garland is
 Microsoft trial.

a headache



SOFTWARE

BYPASSING WINDOWS

Big makers will ship PCs that don't need operating systems

Thomas Penfield Jackson, the Federal District Court Judge hearing the Microsoft antitrust trial, holds the keys to the software giant's future. But so do Compaq Computer, Hewlett-Packard, and Dell Computer. For years, these companies—and other computer makers that distribute Microsoft programs with their hardware—have obediently trotted out whatever new product Microsoft Corp. offered and hewed to whatever strategic directions the folks in Redmond issued for the industry.

Lately, however, they're showing signs of independence. In the fast-growing market for server computers, the machines that dole out Web pages across the Internet or send E-mail around a corporation, the top PC companies are beginning to look at non-Microsoft options. The first is Linux, a server operating system that is available for free on the Internet. Compaq, Dell, and HP are shipping or will soon ship computers with Linux instead of Windows NT, Microsoft's operating system for servers.

CHEAPER OPTION. Now, the same companies are looking into another market where Microsoft's wares aren't needed: so-called "server appliances." These are inexpensive server computers that are devoted to a single task, such as routing mail, and, as a result, don't require a full-blown Microsoft operating system. No Windows. And with price tags as low as \$999, vs. \$3,000-plus for a Windows-based server. "Appliances have changed the server landscape forever," says

Stephen W. DeWitt, CEO of appliance upstart Cobalt Networks Inc. "The economics are just too powerful to ignore."

On Feb. 1, HP unveiled a server that runs Oracle's database software—with nary a trace of an operating system at all. And it plans to debut another three server appliances in the next few months. Compaq is considering a similar product. And almost all of the PC heavies are talking with Cobalt, Whistle Communications, and Encanto Networks to get in on the trend. One top PC maker—which asked not to be identified—is about to announce a deal to resell Encanto's \$995 e.go web server, which enables small businesses to easily set up E-commerce Web sites.

VAST MARKET. Analysts think server appliances could grab a big chunk of server sales to corporations, institutions, and Net service providers. Dataquest Inc. figures the server-appliance market will grow from \$500 million now to \$13 billion by 2002, when it will represent 19% of the total server business.

Even if that number proves a bit optimistic, there's no doubt that Microsoft faces a new kind of challenge. If servers without operating systems are what customers are asking for, says Fred J. Oh, Acer America's director for product marketing, "there's nothing Microsoft or anyone else can do about it." But Microsoft is considering drastic measures: The giant is already tinkering with its own "embedded" version of Windows NT, a stripped-down product that could be priced to compete in the appliance market, say analysts.

For PC makers, appliances present a tantalizing opportunity. Says Acer's Oh: "We've always dreamt of the day when people wouldn't care about the operating system." For Microsoft, that's a nightmare as scary as anything going on in Washington.

By Peter Burrows in
 San Mateo, Calif.

PHARMACEUTICALS

WHY SEARLE IS FEELING NO PAIN

Its arthritis drug is selling faster than anything since Viagra

The mood at G. D. Searle & Co. is almost giddy. And why not? Even before the Monsanto Co. unit has officially kicked off its marketing campaign, its Celebrex arthritis treatment has become one of the fastest-selling new drugs in history. In its first two weeks, doctors wrote more than 56,000 prescriptions, making Celebrex the second-fastest starter in recent memory, ahead of cholesterol-lowering Lipitor but behind—you guessed it—Viagra.

Celebrex may never match Pfizer Inc.'s impotence pill for headlines or notoriety, but it could ultimately prove just as big a revenue generator. Says Richard U. DeSchutter, chairman and chief executive of Searle: "We think there's enormous potential to touch tens of millions of people in the U.S. and hundreds of million worldwide." In fact, if sales continue at the current pace, SG Cowen analyst Stephen M. Scala expects Celebrex sales to hit \$550 million this year and \$3 billion annually by 2002.

CHOICES. Still, there are plenty of hurdles to making those projections reality. Celebrex is the first of a new category of pain drugs, so-called Cox-2 inhibitors, to win approval. But Merck & Co. has its own Cox-2 product, Vioxx, which is expected to hit the market in four months. Meanwhile, although Searle's data showed great short-term safety benefits over current arthritis remedies—which can cause side effects such as stomach bleeding—it's unclear whether that edge will persist with long-term use. Also, health-maintenance organizations are resisting covering Cele-

brex until the long-term benefits are proven.

That's why Searle and marketing partner Pfizer are rushing to grab market share. On Feb. 22, hundreds of sales reps from the two companies will fan out to doctors' offices in what is likely to be the most intense marketing effort ever aimed at physicians. In the next six months, the companies expect to acquaint 150,000 doctors with the virtues of Celebrex. That's likely to be followed by a consumer ad blitz. HSBC Securities analyst Jack Lamberton figures the cost of the launch could hit \$100 million for the year. "We are moving at warp speed," says



HOW CELEBREX' HOT LAUNCH STACKS UP

	TOTAL PRESCRIPTIONS	
	WEEK 1	WEEK 2
VIAGRA	42,084	128,888
CELEBREX	9,810	46,225
LIPITOR	4,043	8,381

DATA: NDC HEALTH INFORMATION SERVICES

J. Patrick Kelly, vice-president at Pfizer Pharmaceuticals Group.

What gives the new drugs such great potential? Cox-2 inhibitors, which get their name from the enzyme they block, are expected to provide the same relief as nonsteroidal anti-inflammatory drugs (NSAIDs) like ibuprofen or naproxen, but with far fewer intestinal side effects such as ulcers. But the Food & Drug Administration wasn't convinced by Searle's data showing Celebrex is safer than the NSAIDs over the long term, and it is requiring that the drug's label carry a version of the standard NSAID warning on

stomach side effects until more data are available.

Industry pros figure that decision attributed to Searle's pricing. Celebrex cost about \$2.42 per day, less than analysts had expected. That also reduces pressure from managed-care organizations that are trying to get control of so-called prescription drug costs. Searle and Pfizer consulted with HMOs, doctors, and patient groups, testing 700 different pricing models before settling on the current figure. Even so, HMOs including U.S. Healthcare, United Health Corp. and Wellpoint Health Network Inc. are trying to limit use of the drug for now through higher co-payments of \$25 a month at United Healthcare by restricting it to people at risk of intestinal problems.

LOW RISK. Celebrex' price is competitive with some popular NSAIDs, but more costly than generic arthritis drugs that cost as little as 10¢ a day. And there is the risk that unexpected side effects could surface. Researchers at the University of Pennsylvania released a study in January raising questions about whether Cox-2 drugs could increase blood clotting. A

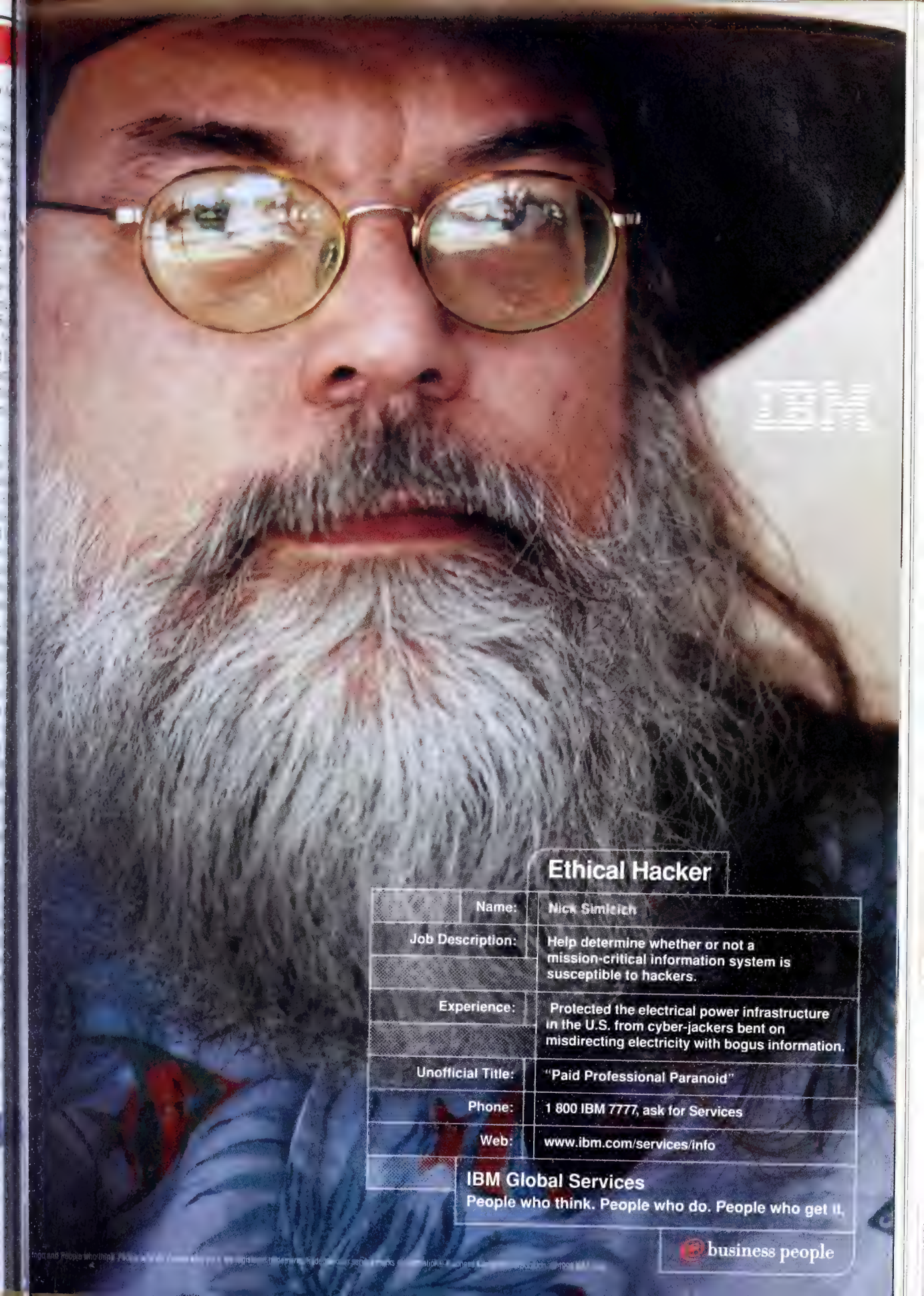
spokesperson says Celebrex was tested in patients, and no increased risk of cardiovascular events was found.

Rivals are ready to pounce on any Celebrex weakness. SmithKline Beecham, maker of popular prescription NSAID Relafen, will

offer free trials of its product to patients who are unhappy with Celebrex. Analysts are betting that when Merck's Vioxx gets the FDA nod, its label will show better safety data than Celebrex. "Merck has a history of getting into new areas and just dominating them," says Christopher J. Oehlmann, product manager at pharmaceutical consulting firm Decision Resources Inc. That's all the reason Searle and Pfizer will be pushing the Celebrex marketing machine into overdrive.

By Amy Barrett in Philadelphia
Richard A. Melcher in Skokie, Ill.

Searle is facing competitive heat from SmithKline's Relafen and Merck's Vioxx



IBM

Ethical Hacker

Name:	Nick Simleich
Job Description:	Help determine whether or not a mission-critical information system is susceptible to hackers.
Experience:	Protected the electrical power infrastructure in the U.S. from cyber-jackers bent on misdirecting electricity with bogus information.
Unofficial Title:	"Paid Professional Paranoid"
Phone:	1 800 IBM 7777, ask for Services
Web:	www.ibm.com/services/info

IBM Global Services

People who think. People who do. People who get it.

 **business people**

COMMENTARY

By Jennifer Reingold

SLIMMER REWARDS FOR A JOB POORLY DONE

With the bull market forging ahead, investors may be blasé about the costs of excessively generous stock-option compensation plans. Why quibble about a little dilution when prices are soaring? But regulators don't care about bull or bear markets. And fortunately for shareholders, the watchdogs are trying to ensure that options are used as rewards for good performance—not giveaways for execs that shareholders pay for.

The most important reforms involve repricing options. Some companies reissue options at a lower price when their share prices drop—a practice they say is necessary to hold on to key executives. Shareholder activists say repricing is unjustified because it essentially rewards executives for poor performance at a time when investors are suffering. The Financial Accounting Standards Board (FASB) has come up with a new interpretation of an existing rule that would force companies to account for repriced options as an expense. Today, the costs of options—including repricing—are not charged to earnings. The proposal would make repricing much costlier and, presumably, discourage the practice.

STIGMATIZED. Companies are taking the FASB proposal, which will soon be circulated for comment, seriously. After the FASB announced in early December that the proposal could affect repricings done after Dec. 15, companies responded with a rash of repricings in an attempt to beat the cut-off. Timothy J. Sparks, head of compensation and benefits at Wilson Sonsini Goodrich & Rosati, a Silicon Valley law firm, says he worked on some 100 repricings as Dec. 15 approached. "There was a pretty good crowd at the exit," he says. There also were plenty beforehand. E*Trade Group Inc. repriced its options in October at a split-adjusted \$8.50. Since then, the stock has traded as high as 62%.

Trade groups such as the Software & Information Industry Assn. oppose the FASB's plan, saying repricing is part of keeping critical employees. But opposition has been relatively muted, perhaps because repricing bears a stigma—it can let execs benefit unduly from a stock's fall. "It's like arguing about jail time for child molesters," says pay consultant Frederic W.

grams director at proxy advisor Institutional Shareholder Services. Currently, companies can reprice a will, but they must disclose it in the proxy. The SEC's shift lets shareholders speak out before the repricing is done—a smart move.

But while FASB and the SEC attack option abuses, the New York Stock Exchange could be promoting them. The Big Board approved a rule last April that would make it easier for

companies to issue new options without shareholder input. No vote is now needed if a company's option plans include 20% of eligible employees, at least 50% of whom aren't officers or directors.

The ruling brought outcry from investors such as the SWIB and the Council of Institutional Investors, a group representing over 100 pension funds. Now, even NYSE task force's proposed compromise on the matter has stalled. "We can't think of an issue that matters more," says Sarah A. B. Teslik, executive director at the Council.



NO FAIR Regulators want to reform option policies that compensate executives inappropriately when stocks fall

Cook, who believes the proposal will pass easily. "Repricing is dead."

Repricing is also an issue at the Securities & Exchange Commission. In December, the agency told General DataComm Industries Inc. that it had to include a proposal by the State of Wisconsin Investment Board (SWIB) in its proxy statement banning repricing without prior shareholder approval. The proposal was slated for a Feb. 4 vote. "By holding the feet to the fire on shareholder approval, you're better off," says Patrick S. McGurn, corporate pro-

[we] were to go down in flames on anything, it would be this."

They're right. Option plans, if abused, can dilute shareholders' holdings and reward mediocre performance. As owners of companies, shareholders should have the right to vote on matters that may dilute the stakes. In a time of option mania, FASB and the SEC are adding needed clarity, but the Big Board should get back to the drawing board.

Reingold covers management and executive pay.

DYNASTIES

JAY PRITZKER'S MANTLE FITS PRETTY WELL

Partner and son Tom is well-positioned to continue dealmaking

His voice choking, Thomas J. Pritzker looked out at a sea of mourners on Jan. 25 and spoke of the passing of "my best friend, my father, and my partner," Jay A. Pritzker. The death of Pritzker, 76, marks the passing of a 20th century business legend. He helped amass a global, multibillion dollar empire spanning everything from hotels and vast real-estate holdings to low-tech industrial metalbenders and business jets—the bulk of them private and in the hands of his family. One of Pritzker's

in a neighboring office to his father, and, say colleagues, has been intimately involved in all dealmaking for the past two decades.

How will the son put his mark on the empire? Since Jay suffered a stroke in mid-1997, Tom has quietly been asserting more influence, though insiders and outsiders alike say a consensus approach rules. (His three siblings are not actively involved in the business.) In recent years, say colleagues, he has been pushing many of the deals that go

Tom's global focus, says Geoga, behind a recent investment in the Hyatt in Seoul, a hotel the Pritzkers manage. Hyatt will also be adding 15 hotels in the U.S. over the next years, and it will make its debut in the Las Vegas area later this year with a resort hotel at Lake Las Vegas.

NEW PATHS. Meantime, Pritzker played a key role in guiding family investment into newer industries. Pritzkers now have stakes in a long-term care company, called First Care Group Corp., and in a venture-capital firm that's investing in biotech and sciences.

Like his father, Tom will not operate on his own. His uncle Robert Pritzker, 72, is chairman of Marmco Group, a \$6 billion collection of industrial companies that makes everything from medical products and mining equipment to work gloves. Some old Pritzker

joke that Robert ended up managing many of the firm's assets Jay has bought.

Cousin Penn Pritzker, 39, heads expansion of the family's assisted living facilities—Classic Residence by Hyatt, Encore Senior Living. A prominent Democratic Party fund-raiser and donor, she also oversees a network of non-profit real estate ventures that include off-airport parking, land development, apartment management and development, and industrial retail development. Her third cousin, Nicholas Pritzker, 53, is the



ALL IN THE FAMILY: Tom is overseeing an expansion of Hyatt

THE PRITZKER EMPIRE: A SAMPLING

HYATT HOTELS 184 around the world

MARMON GROUP \$6 billion industrial conglomerate

GALAXY AEROSPACE joint venture with Israel Aircraft Industries to launch new business jet

CLASSIC RESIDENCE BY HYATT, ENCORE SENIOR LIVING network of assisted living facilities

ROYAL CARIBBEAN CRUISES 25% stake in cruise-ship operator

DATA BUSINESSWEEK

key legacies may be that his dynasty is not only intact, but well-positioned to continue dealmaking without missing a beat. "Jay was determined to have everything in place, to make the transition to the next generation," says J. Ira Harris, senior adviser to the family.

Members of the intensely private Pritzker clan are not talking. But it's clear that *primus inter pares* among the next generation of Pritzker cousins is Tom, the 48-year-old chairman of the family's \$5 billion Hyatt Corp. unit and Jay's eldest son. Soft-spoken, with a gravely voice that echoes his late father's, Pritzker is a student and collector of Asian art, with a home in Katmandu and an abiding interest in globalizing family interests. He worked

beyond hotels and real estate investments. The family's joint venture with Israel Aircraft Industries—Galaxy Aerospace—which is producing a new, mid-priced, long-range business jet first released in January bears much of Tom's handiwork.

Tom shares his father's goal to keep the family jewel, Hyatt, independent and private. Hyatt President Douglas G. Geoga says the younger Pritzker has rebuffed several would-be buyers for the hotel chain over the past decade as the industry has consolidated. And he's now overseeing a \$1 billion expansion of hotels around the world. "He sees enormous opportunities in hotel and real estate opportunities overseas, and his interests are accelerating," says Geoga.

operative behind Hyatt's developer deals, and the driving force behind the family's fairly recent moves into gambling operations.

It is, of course, far too early to gauge whether the next generation will embrace Jay's bold investment style that led him into sometimes controversial buyouts and bankruptcy acquisitions. With dealmakers awash in capital, the next generation of Pritzkers will face oodles of competitors. They will have to do more pioneering. Dallas investor Bruce Leadbetter, a partner in Pritzker deals for years, says, "ready, they're showing signs of that—and perhaps that's just what was intended."

By Richard A. Melcher in Chicago

IBM Global Services

Overview:

IBM Global Services is people. Strategists. Problem solvers. Implementers. Over 100,000 people worldwide who have worked in all kinds of industries. People who understand how technology can solve real business problems, or take advantage of new opportunities. People who help you make sense of technology, who work with you—making sure the solution you want is the solution you get.

Phone: 1 800 IBM 7777, ask for Services

Web: www.ibm.com/services/info

IBM Global Services

People who think. People who do. People who get it.

 e-business people

IBM



COMMENTARY

By Keith Naughton

IN FOURTH GEAR, FORD HEADS FOR FIRST PLACE

The last time Ford Motor Co. was the world's largest auto maker, founder Henry Ford was still at the wheel and the Great Depression was just dawning. The automotive pioneer had clung doggedly to his beloved, but outmoded, Model T even as General Motors President Alfred P. Sloan Jr. outmaneuvered him with modern and stylish Chevrolets. By the time Ford introduced the Model A in late 1927, it was too late. General Motors Corp. overtook Ford in 1931 and never looked back—until now.

The auto industry is on the brink of a new world order. GM today is trying desperately to reverse more than three decades of decline. Meanwhile, Ford is signaling its intention to pass. Its \$6.45 billion purchase of Volvo, announced on Jan. 28, gives it the momentum to pull ahead. And if Ford follows through on plans to buy the two-thirds of Mazda Motor Corp. that it doesn't own, the longtime No. 2 auto maker will be No. 1.

CAR TALK. Here's how it adds up: Start with Ford's 6.8 million annual sales of cars and trucks, then add in 400,000 from Volvo and 1.1 million from Mazda. In two or three years, that could add up to 8.3 million cars and trucks annually, passing GM's current 8.2 million.

What's even more impressive, analysts now believe Ford, simply by adding Volvo, could outpace GM. That assumes the company can live up to CEO Jacques A. Nasser's predictions that Ford's luxury car sales will jump from 250,000 in 1998 to 1 million by 2003. In January, Ford's U.S. sales soared 8%—twice expectations—thanks to record sales of pickups, sport-utility vehicles, and minivans. GM sales rose a modest

3.7%. "Ford is putting its foot on the gas," says Schroder & Co. auto analyst John Casesa. "One company has a headwind, and the other has a tailwind."

Such bright prospects might feel like dynastic vindication to Ford's new Chairman, William Clay Ford Jr., great-grandson of Henry Ford. But Ford says he's keeping

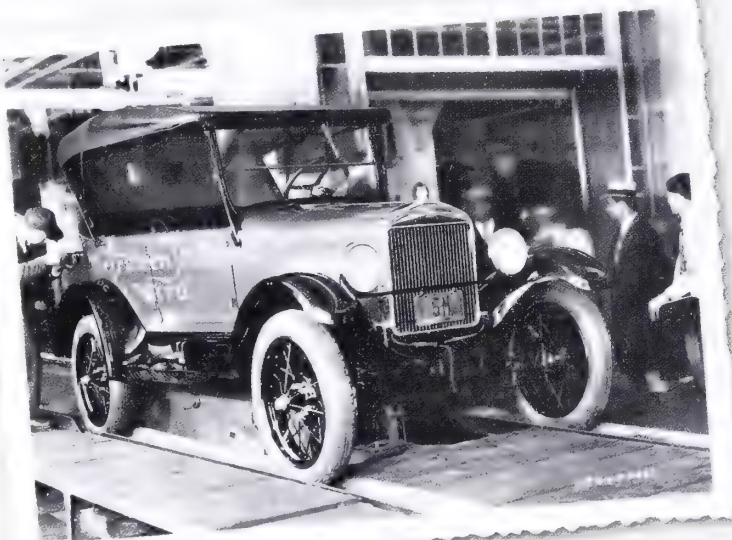
shopping. Among possible candidates: BMW, Honda, and Fiat, which is said to be considering selling its car business. "I don't think we can rule anybody out," acknowledges Ford. "But we can be very selective as we look through the pantheon of choices." The Volvo deal, for example, will immediately add to

Ford's bottom line and contribute as much as \$1.2 billion annually within three years, predicts analyst Scott Merlis of Wasserstein Perell Securities.

GM, for now, appears to be sitting out the takeover derby. Instead, it

GLORY DAYS REVISITED

One of the last Model Ts to roll off the assembly line



his eye on a prize that he already has. "What I like is that we're the most profitable car company in the world," he says. Ford took that title in 1997 and has outearned GM in the last two years by a score of \$12 billion to \$9.3 billion.

Whether it's the chairman's goal or not, Ford is expected to surpass GM on another important measure this year: revenue. Ford will likely become the industry leader—and possibly the largest company of any kind—if annual sales, combined with Volvo's, simply hold steady at \$157.4 billion. While GM had 1998 revenue of \$161.3 billion, it will lop off \$28.5 billion in annual sales when it divests its Delphi parts unit this year.

The one question outstanding: Is Ford in danger of overextending or taking its eye off the ball? With \$17.4 billion left in its cash kitty after the Volvo purchase, Ford is still

vowing to reassert its leadership with new models like the Chevrolet Silverado truck. But GM has haunting similarities to the Ford of the late 1920s—aggressively trying to revive its faded product lineup while the competition speeds off in new directions. Declares GM's marketing chief, Roy S. Roberts: "We're going to the wall."

Such rhetoric is in contrast to the calm confidence displayed by Henry Ford's 41-year-old heir. Bill Ford steadfastly refuses to predict if or when he might defend the family honor and vanquish GM. "If you do everything else well, size will follow," says Ford. "But I don't get my kicks from the No. 1 title because it can be fleeting." Maybe so. GM managed to hold onto the top spot for years, but complacency can strike at any time.

Naughton covers the auto industry for BUSINESS WEEK in Detroit.

HUMANS
HAVE THE
CONCORDE.
PACKAGES
HAVE UPS.



For the earliest delivery to more international cities than anyone, complete with in-flight customs clearance, call 1-800-PICK-UPS or visit ups.com.

MOVING at the SPEED of BUSINESS®



EDITED BY KELLEY HOLLAND

SAYING SAYONARA TO LONG-TERM

YOU WON'T HAVE MYRON Scholes to kick around anymore. The 1997 Nobel economics laureate announced on Feb. 2 he was retiring from Long-Term Capital Management, the Greenwich (Conn.) hedge fund that nearly collapsed last year. "Things are pretty well in hand here," Scholes told BUSINESS WEEK. By the end of 1998, LTCM's positions were up about 11% from Sept. 23, when the Federal Reserve Bank of New York got 14 big banks and brokerage firms to inject \$3.6 billion and take a 90% stake in the firm. A spokesman says LTCM is not trying to raise money, but partners have been making

presentations. Scholes, 57, is moving to San Francisco and plans to write, lecture, and spend time with his family. Fellow Nobel laureate Robert Merton remains at the firm.

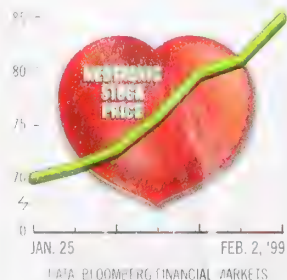
A PATRIOT FOR HILTON?

HILTON'S DEAL-LOVING CEO, Steve Bollenbach, is bidding \$1 billion to buy hotel assets from struggling Patriot American Hospitality. The move is an effort to break up a prior deal in which investment group Apollo Real Estate Advisors agreed to take a 30% stake in Patriot American. Bollenbach, who bought eight hotels for nearly \$1 billion in 1998, is said to covet Patriot American's extended-stay Summerfield Hotel chain and also wants selected upscale hotels run under the Wyndham and Sheraton brands. Hilton refuses comment, but sources say a deal could happen by mid-February.

CLOSING BELL

POUNDING PULSE

Be still, my heart. Medtronic is flexing its muscle in cardiac care, and the market is taking notice. On Feb. 2, shares soared 4.9%, to 85, on word that the FDA had approved Medtronic's new defibrillator, 35% smaller than other models. The O.K. came less than a week after the company introduced a new line of pacemakers. Says PaineWebber's David Lothson: "Their core products are entering the year with tremendous momentum." Medtronic is also working on other new products.



AT&T AND MCI PICK DIFFERENT PATHS

HOW BEST TO ENTER THE local phone market? AT&T and MCI WorldCom disagree. On Feb. 1, AT&T unveiled a joint venture with Time Warner to let AT&T offer local service over Time Warner's cable network. That comes as AT&T is about to buy TeleCommunications Inc. and use its phone network. On Feb. 3, MCI WorldCom said it would offer local service, too. Its plan: Instead of building a network, it will buy capacity from Bell Atlantic and resell to New York residents.

MINNESOTANS VS. NORTHWEST—AGAIN

NORTHWEST AIRLINES IS headed back to court. On Feb. 2, a federal appeals

HEADLINER: MICHAEL D. EISNER

DISNEY'S NEW FAMILY VALUES

Walt Disney Chief Executive Michael Eisner isn't exactly whistling while he works on improving results in his movie division. Despite a string of hits such as *Enemy of the State* and *The Waterboy*, Eisner has partly blamed the live-action business for lower 1998 earnings and for an 18% drop in fiscal first-quarter profits. "Either the films and marketing cost too much," Eisner wrote to shareholders in December, "or the audience rejected our ideas."

Flops such as *Mighty Joe Young* have prompted Disney to revamp its studio operation. Animated film



chief Peter Schneider was put in charge of Disney family film unit. Eisner aims to cut by one-third the production and distribution budget, which was \$1.5 billion last year. The company will seek deals with other studios to share the costs of big-budget action films, and Disney will make more lower-priced family films.

Studio chief Joe Roth embraced big-budget films in the past. But he says he's comfortable with the new plan. "We're still going to make big-budget films, we're just not going to do as many of them."

By Ronald G.

court reopened a 1997 antitrust suit against the carrier, alleging predatory behavior following the 1986 merger of Northwest and Republic Airlines. The complaint says the consolidations led to higher fares for passengers using Minneapolis-St. Paul International Airport, where Northwest now accounts for 80% of traffic. Northwest and Republic had been the top carriers there. Plaintiffs' lawyers say the case could affect thousands of passengers who have been overcharged as much as \$400 million since the merger. Northwest plans to appeal.

SOFTWARE THAT'S AGAINST THE LAW

A FULL-EMPLOYMENT program for lawyers? A federal judge in Dallas plans to ban the sale of some self-help legal software in Texas. In a Jan. 22 ruling, U.S. District

Judge Barefoot Sanders decided that Quicken's Lawyer and Quicken's Lawyer '99, distributed by Parsons Technology, violate the unauthorized practice of law. The court programs help consumers draft their own wills, marital agreements, and documents. Attorneys Parsons plan to challenge the ruling and in the meantime will ask the judge to hold the ban on hold. Texas is the first state to try such

ET CETERA...

- DuPont and Teijin form a joint venture to produce polyester film.
- 3Com named VeriFone Robin Abrams to head Palm Computing division.
- Cisco's earnings rose as revenues increased for its fiscal second quarter.
- Arco and Chevron combine their oil and gas assets in the Permian

After 132 years in the energy business, our reputation has become our name. Reliant.

Introducing Reliant Energy. The new identity for
Houston Industries and its subsidiaries.

It's only fitting that the energy
company people have counted
on since 1866 takes on the next
chapter under the name that best
describes it. Reliant Energy is the
result of our separate electric and gas
companies becoming one strong,
united and international energy
company with expertise
across the entire energy spectrum. And

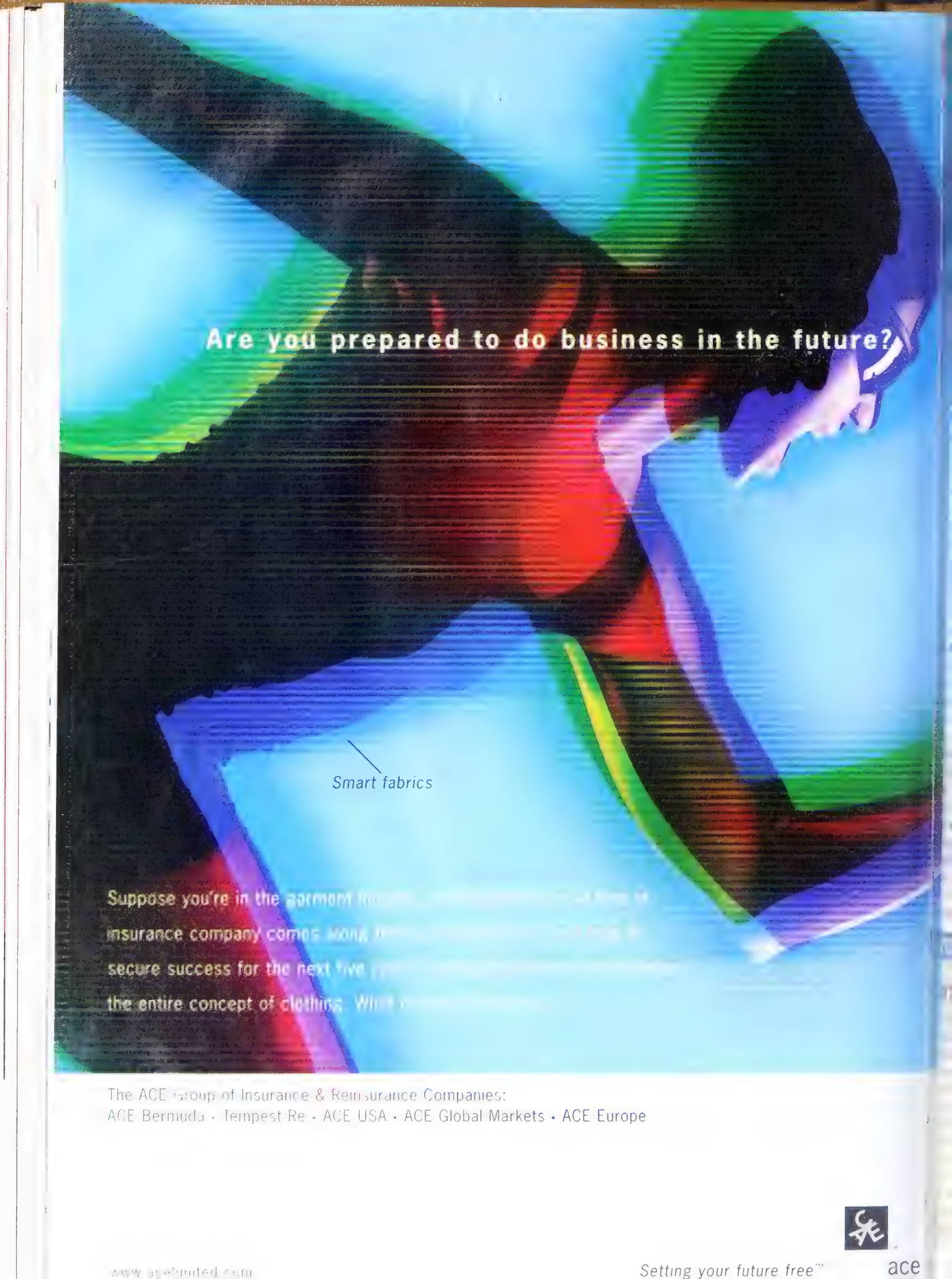
it reaffirms our commitment to being
the one you choose no matter what
your energy needs.

Reliant Energy reflects our
promise to continuously broaden our
resources, services and capabilities to
meet the needs of the future. Now, as
a diversified energy services company,
our business synergies give us a solid
foundation from which to offer

existing and potential customers
the service that is truly world-class.

All this to say that Reliant
Energy is the company with the
reputation and heritage you can
bank on.





Are you prepared to do business in the future?

Smart fabrics

Suppose you're in the garment industry. One day, an insurance company comes along offering you a policy that guarantees secure success for the next five years. The policy covers the entire concept of clothing. What would you do?

The ACE Group of Insurance & Reinsurance Companies:
ACE Bermuda • Tempest Re • ACE USA • ACE Global Markets • ACE Europe

EDITED BY PAULA DWYER

WHY THE PATIENTS' BILL OF RIGHTS COULD PULL THROUGH

Thanks to the partisan rancor sown by Bill Clinton's impeachment, it has become conventional wisdom in the capital to say nothing much will get done until a new president is sworn in. But health insurers and employers are buying that line. Convinced that Congress might come up long enough to enact a patients' bill of rights for managed-care plans, industry groups are preparing a lobbying blitz to head off any reforms.

The lobbyists know something that the pundits don't: After his trial whimpers to a close, an emboldened President Clinton plans to campaign for his bill-of-rights plan, which gives HMOs new leverage against cost-conscious Republicans, eager to court impeachment-voters, are desperate to change the subject. GOP strategists think one way to do that is to pass an HMO bill of their own. What's new House Speaker J. Dennis Hastert, a health-policy expert, hopes to demonstrate effectiveness by, among other things, making the GOP a player on health care.

UP. That's why the industry is running a massive ad campaign. Last year, it easily quashed the drive for a managed-care reform. This year, lobbyists are buying up the heavy equipment. Employers and the managed-care business will launch a combined \$7 million media campaign to lure anti-HMO reform ads in key states.

Feb. 10, a platoon of executives will head to the Hill to lobby lawmakers.

On the surface, the legislation looks relatively benign. It guarantees patients' access to emergency care and removes the "gag rule" that bans physicians from discussing costly treatment alternatives. But Clinton & Co. want to give HMO enrollees the right to sue over denial of care or inadequate care.

Republican lawmakers adamantly oppose this liability pro-

vision, insisting that it would be a boondoggle for trial lawyers and result in frivolous lawsuits. What's more, industry lobbyists fear that once a modest measure is passed, Democrats will be tempted to come back every few years and up the pressure on HMOs. "We will continue to fight against mandates because they increase premiums and reduce coverage," says Johanna Schneider of the Business Roundtable.

Business opponents prefer no bill at all. But they have probably lost that fight already. Speaker Hastert may try to pass some consensus reforms from last year's legislation while holding the line on liability. "It would get the trains moving" and boost odds for a bipartisan deal, says a GOP Hill aide.

But Democrats plan to hang tough on liability. With five more seats in the new 106th Congress, they figure they have less reason to yield. "Democrats should keep the bar high," says party pollster Mark Mellman. "There's no reason to give in to Republicans." That's mostly bravado. If Republicans get behind compromise legislation—*sans* liability—that gives the White House a chance to claim a rhetorical victory on patients' rights, and Clinton, the Great Compromiser, will be tempted to go along.

With that in mind, insurers are beginning to make preemptive moves. Aetna U.S. Healthcare Inc., the nation's largest managed-care provider, recently agreed to let patients appeal treatment denials to independent review boards. United Healthcare Corp. says it will follow Aetna's lead shortly.

Ultimately, the battle will come down to this: How anxious are impeachment-battered Republicans to curry favor with voters by showing some new-found flexibility on health reform? It's a major unknown, but employers and the insurance lobby aren't waiting to find out. That's why they're waging an uphill fight to snuff out the reform drive before it really gets rolling.

By Amy Borrus



HASTERT: *Compromise?*

CAPITAL WRAPUP

60 AIN'T GOT THAT SWING

Support from independent voters was crucial to Bill Clinton's two Presidential victories, but Vice-President Al Gore doesn't seem to be inheriting Clinton's touch with swing voters. While Clinton's high job-approval rating cuts across partisan lines, the Veep is favored by just 44% of independents, according to a Jan. 27-29 *Los Angeles Times* poll. Some 45% view him unfavorably. More ominously, Gore trails Texas Governor George W. Bush among independents, 68% to 27%, in a

hypothetical matchup. Former Labor Secretary Elizabeth Dole leads Gore among the same voters, 53% to 36%. The Veep's problem? He's seen as too much of a traditional Democrat, and he doesn't get much credit for the '90s economic boom. Gore will need to move fast to build bridges to independents. At 39% of registered voters, they could determine the 2000 Presidential race.

NO FREE LUNCH DEPT.

► House Republican leaders, eager to prove they're back to business, plan an early February vote on a measure that

would make it harder for Congress to impose "unfunded mandates" on the private sector. Business gripes that such mandates as a 1996 requirement that phone companies wire all schools to the Internet cost companies and consumers millions of dollars in hidden charges. The Mandates Information Act would let lawmakers demand a separate vote on any new requirement whose cost exceeds \$100 million, as estimated by the nonpartisan Congressional Budget Office. A similar measure passed the House last year but languished in the Senate.

JAPAN

JAPAN'S DESPERATE DEALS

They're just the prelude to even greater upheaval

Old Japan hands thought they would never see such deals in the closed world of Japanese finance and business. U.S. financial giant General Electric Capital Services Inc. pulls off a \$6.5 billion takeover of Japan's biggest leasing company in the country's largest foreign acquisition ever. Goodyear Tire & Rubber Co. suddenly emerges as Sumitomo Rubber Industries' white knight. *Keiretsu* group relationships fall apart as Japanese banks and brokers engage in a bewildering array of novel mergers and tie-ups. The financial-reconstruction czar, Hakuo Yanagisawa, forces a shotgun marriage between Mitsui Trust & Banking and rival Chuo Trust & Banking.

These deals are a prelude to an even greater upheaval. It's not because Japan's mandarins want reform: They probably don't. Instead, the transformation will occur because Japan's trillions in wealth are a far weaker bulwark against change than anyone has imagined. Japan is running out of money to prop up its bankrupt banks and companies and absorb at least \$600 billion in bad loans. The only solution is to weed out weak companies and invite in foreign capital. "Only companies in real distress would look at such deals with foreign partners," says Mitsubishi Corp. Chairman Minoru Makihara.

Skeptics think these deals are window dressing, an attempt to convince gullible foreigners that Japan is serious about reform. They argue that with \$10 trillion in domestic savings and \$1 trillion in net overseas assets, Japan can

resist real reform for years. Yet the fear is growing that the government cannot continue to bail out sick companies. Prime Minister Keizo Obuchi's government thinks it can readily raise \$500 billion for fixing the banks and earmark another \$200 billion in easy credit to companies, tax breaks to consumers, and public works to benefit the sprawling construction industry. Yet raising that money could prove prohibitively expensive. Even if Obuchi pulls it off, this budget may be the last serious rescue package the government can afford: As little as \$1 trillion of Japan's \$11 trillion in wealth may be available to bail out Japan Inc.

SPOOKED. It's hard to square this parlous state of affairs with the stories of Japan's wealth. Couldn't Tokyo just tap into those trillions by issuing an endless stream of government bonds, then bail out banks and companies with the proceeds? That's what the government hopes to do—but investors are already getting spooked. Long-term rates have doubled since last fall, as bond traders wonder how a projected 50% increase in bond issues will be absorbed by the

market. MOF's Trust Fund bureau, which manages \$3 trillion in postal savings and insurance premiums, says it can't absorb the new demand.

Some politicians want the Bank of Japan to print money to buy all the bonds. That's a scary idea, since years of wasteful public-works spending have driven up Japan's gross debt level to 110% of gross national product. It could reach 140% by 2002. This estimate does not include the latest bank bailout plan—and billions more in off-balance-sheet government loans and pension shortfalls. "The real millennial bomb [is] the collapse of Japan's securities



it finances," warns David Asher, a fellow at Massachusetts Institute of Technology. Understand why, you need to detect the quality of Japanese assets. It's true that Japan holds \$1 trillion in net assets overseas, and theoretically, it could bring that money home. Yet roughly \$800 billion of that is owned by companies in the form of private direct investment, such as real

The other pots of money in Japan can't help bail out the system, either. MOF's Fiscal Investment & Loan Program, or Zaito, has historically channeled some of the \$3 trillion in postal savings into the government bond market. Now, that money is earmarked for emergency loans to the corporate sector and won't be available for the bonds that the government desperately needs to sell. Nissan Motor Co., for example, received a \$730 million loan

billion decline in income for loan repayments this year—a sure sign of trouble.

The \$3 trillion on deposit in the postal savings system is one third of Japan's \$10 trillion in household financial assets. The authorities can conceivably draw against this \$10 trillion in the fight to save Japan Inc. Yet that number quickly dwindles on examination. The postal savings money is already tied up in the Zaito mess. Households have another \$3.5 trillion worth of home mort-

gages and other debts to service. The remaining \$3 trillion is sitting in other banks. The Japanese are hoarding this money against shortfalls in private and public pension schemes that are projected to hit 100% of gross domestic product. The banks are reluctant to put these funds into government bonds.

FAMILY SILVER. The mismatch between assets and liabilities is alarming. "These numbers have never been witnessed before in an industrialized economy," says Vincent Truglia, a former New York Fed official and managing director of rating agency Moody's Investors Service. To get government funds before they disappear, banks that once vowed to remain independent are merg-

ing. Companies are unloading the family silver. Japan Airlines Co. decided last month to sell its trophy Essex House in midtown Manhattan for \$250 million to Chicago-based Strategic Hotel Capital. At this scary stage, foreign money is looking more attractive. "If a foreign bank buys a Japanese bank, it's more safe," says Citizen Watch Chairman Michio Nakajima.

That's ironic. Finance ministers in the West have hectored the Japanese for years to get tough on reform. It never did any good. But the prospect of running out of money has given the Japanese a focus they long lacked. They need to keep that focus to avoid possibly the worst solvency crisis in Asia. It will be a long and painful workout.

By Brian Bremner in Tokyo

WEALTH ILLUSION

Japan's \$4.2 trillion economy isn't as rich as it seems on paper. Both its external assets and national savings mask big distortions. Here is a cold look at Japan's fabled wealth.

WEALTH ILLUSION #1

Japan's net overseas assets \$1 trillion can be brought home to help the economy.

THE REALITY

Government can tap almost all of this money. \$800 billion of the overseas assets are in state hands. The Bank of Japan needs its \$220 billion foreign-exchange reserves to intervene in the currency market to keep the yen in check.

WEALTH ILLUSION #2

Household assets of \$10 trillion are enough to fund future bailouts.

THE REALITY

Two-thirds of that money is either tied up in servicing mortgages or is already invested in government bonds and loans. The rest is sitting in banks, which do not want to buy more government paper. And depositors want to preserve this nest egg to fill an expected pension shortfall.

WEALTH ILLUSION #3

Public debt is still manageable: It's comparable to U.S. levels.

THE REALITY

Japan's recession, declining tax revenues, and new spending commitments will push gross debt to \$5.8 trillion in three years' time, up from \$4.6 trillion now. A crisis among life insurers, debt defaults on public investments, and unfunded pension obligations could cost an additional \$5.4 trillion.

BOTTOM LINE

Of Japan's \$11 trillion in wealth, perhaps only \$1 trillion or so is available for the current \$700 billion package of bank and corporate bailouts and credits. This is probably not enough to cover the next emergency and an expected pension crisis.

SOURCES: MOODY'S INVESTOR SERVICE, MINISTRY OF FINANCE, AND BUSINESS WEEK

state, factories, and securities. Most of that money is off the table. Government can't really ask Toyota Corp. to sell off a truck plant and invest the proceeds in government bonds. And a big chunk of this money is sunk into Asian investments. These plants have lost much, if not all, of their value and some of the backing them have gone bad. Meanwhile, the balance of that \$1 trillion, some \$220 billion, represents foreign-exchange reserves of the Japanese government, most of it parked in U.S. treasuries. Yet BOJ needs these reserves as ammunition in its efforts to influence the strength of the yen. The upshot is that Japan's assets will be of little use as the crisis grows at home.

from the Japan Development Bank.

Worse, some \$1 trillion in postal savings deposits are parked in long-term certificates earning 5% on average. Those certificates expire soon. Because deposit rates have fallen to 1% since 1995, "maybe half of that will be withdrawn," frets one senior MOF official. That means the government will have much less money for bailouts.

Finally, Zaito has lent much of the postal savings funds to questionable infrastructure and real estate projects. Analysts figure Zaito has to write down or write off a third of that sum, given the drastic decline in property prices. MOF vigorously denies there is a bad loan problem at Zaito. But Merrill Lynch & Co. economist Ronald Bevacqua notes that Zaito is projecting a \$28

During a working dinner at the end of January, Daniel Bouton had a clever idea. The chief executive of French retail bank Société Générale was deep in merger negotiations with executives from investment bank Paribas. On the wine list, he noticed a bottle from a vineyard in which a Paribas board member owned a stake. The selection went over well, recalls Bouton. The two banks tied the knot on Feb. 2, announcing a \$17.2 billion merger and the creation of a new European banking goliath.

The very same day, a captain of French finance, AXA Chairman Claude Bébear, announced that his insurance empire would launch a friendly, \$5.59 billion bid for Britain's Guardian Royal Exchange PLC. If the deal is consummated, AXA will rival Germany's Allianz as Europe's No. 1 insurer.

SECRET WEAPONS. Just two years ago, many bank analysts wrote off France's financial institutions as mere takeover bait for bigger, savvier foreign banks. So far, the French have been mostly absent from the merger free-for-all among European financial institutions. Now they are making their move. As the single-currency financial market begins to take shape, France is sizing up the competition and preparing to deploy its unique resources.

The creation of the euro zone robs the French of a great advantage: protected financial markets that channeled capital into domestic institutions and instruments. But French banks bring special expertise to the euro zone battlefield. France has long excelled in finance, with an elite cadre of technicians trained to manage money for the dirigiste state. That's one reason the French have vaulted ahead of the rest of Europe in such

FRANCE

THE FRENCH FLEX THEIR MUSCLES

They're poised to shake up European finance



FRANCE HAS A LOCK ON PILES OF ASSETS...

FRANCE	BRITAIN	GERMANY
25%	12%	7%
FRANCE	BRITAIN	GERMANY
27%	25%	18%
THE MATIF	EUREX	
20.4	23.6	

...BUT ITS BANKS HAVE FAR TO GO

- French banks deliver an average 12% return on equity, compared with 18% to 20% for their British counterparts.
- France's clubby system needs to open up to foreign investment and forge alliances with non-French partners.
- Like many European rivals, French banks have far too many branches. They need to overcome political resistance and pare their ranks.

DATA: DEUTSCHE BANK RESEARCH, BUSINESS WEEK

sophisticated financial products as derivatives and asset-backed securities. Transferring these skills to the marketplace could give French banks an edge in money management.

France has another secret weapon: a potentially more sophisticated banking system. Its banks and insurers are sitting on centuries' worth of wealth, now locked in real estate, savings

accounts, and low-yielding investment funds. French insurers alone control more than \$700 billion. If these assets are unleashed from their national borders and poured into stocks and corporate debt, France could dominate the enormous financial club in Europe. The French will occupy "a pivotal position in the euro zone's financial sphere," says Svenja Nehls-Obégi, an economist at Deutsche Bank's Paris office.

SHEER FIREPOWER. Insurance contracts and mutual-fund investments are still regulated across Europe by a panoply of national rules. But these rules are gradually being dismantled as the European Commission and enlightened government ministers confront the realities of a single market. Historically, too, French institutions have favored bonds and fixed-income investments over equities. Now, French investors are beginning to demand higher returns. When the French begin diversifying their accumulated wealth into domestic bonds and equities across the euro zone, they could end up with a sizable portfolio of Europe Inc.

For sheer asset power, French institutions have matched their European counterparts beat-for-beat. They rank first in Europe in asset management, with more than \$5 trillion. French mutual funds alone have more than \$625 billion under management, and French markets are the second-largest in

sn't the world, why pay big shipping costs? *Fly Like an Eagle.*TM



Looking for a fast, reliable and affordable way to ship volumes of lightweight parcels and correspondence overseas? The U.S. Postal Service has options that can save you a bundle.

International Express MailSM provides delivery to over 175 countries—for as little as \$15. Global Priority MailTM provides prompt delivery to over 30 key business countries—for as little as \$3.75. You won't find prices as low as these from any other major shipping company. Fact is, rates for comparable services are often double ours.

As one of the world's largest global delivery companies, we have the resources available to help your international business grow at prices that aren't out of this world.

For a free Global Delivery Solutions Kit,SM call 1-800-THE-USPS, ext.DM2035.



www.uspsglobal.com

world behind the U.S. Meanwhile, French insurers, with \$714 billion in assets, rake in 27% of all European life-insurance premiums, and the French life-insurance market overall is the global No. 3.

But for French institutions to make the most of their wealth and market share, they will not only need more strategic mergers domestically. They will need to build management strength, streamline operations, and forge cross-border ties. That means taking a cut-throat approach to winning market share that doesn't come easily in France. "The French financial-services sector can only become as strong as French capitalism, which is a concept that still has some distance to go before being totally accepted," says Felix Rohatyn, U.S. ambassador to France.

A FEW VISIONARIES. There's no question that French banks are weaklings in the lucrative global mergers-and-acquisitions business. They also underperform rivals in return on equity. French banks' ROEs are expected to average 11% to 12% over the next three years, compared with 18% to 20% for British and Irish banks and 15% to 20% for Swedish and Iberian banks.

The issue now is how the French can compete once their markets are open. Their insurance industry has benefited enormously from tax-exempt life-insurance contracts introduced in 1983. Then, in 1992, the government created a new tax-advantaged savings plan in order to spur investment in French mutual funds. That was meant to counterbalance British and U.S. pension funds, which now control some 40% of the equity in quoted French companies. So far, the plan has attracted some \$54.6 billion.

Artificial barriers to foreign competition already are coming down. Brussels-based EASDAQ, the Europe-wide exchange for small-cap stocks, has chal-



PIVOTAL PLAYERS: AXA'S BEBEAR, SG'S BOUTON, PARIBAS' LEVY-LANG

After snapping up British insurer Guardian, Bébear pushed Paribas, where he is lead shareholder, to seek a partner in Société Générale. He now has the megabank's largest stake

and challenged the legality of special tax treatment for French mutual funds that invest in French stocks. And European Union officials are likely to force the French to eliminate any treatment that favors French stocks over others in the euro zone.

A few French visionaries can already see the potential of wider markets. AXA's Bébear is racing to extend his empire from a strong French base. With assets under management of \$550 billion, AXA reaches into every corner of the world. It

was Bébear, as the lead shareholder of Paribas, who pressured Paribas to seek a partner. Now, Bébear is pushing growth to AXA's bottom line. With more than twice the revenue of American International Group, Bébear's company shows earnings of \$1.1 billion to AIG's \$3.3 billion. This earnings lag is in part from Bébear's steady acquisitions—most of which actually make money. His U.S. portfolio, for example, pulled down earnings initially but now contributes \$600 million or 30%, to the bottom line. In fact, officials expect Equitable Cos., which is 60% owned by AXA, to pursue more acquisitions in the U.S. before the dries on the Guardian Royal deal.

"SITTING DUCK." The next two months are obvious targets for bank mergers in France are Banque National de Paris, which considered a tie-up with Paribas and rejected it, and Caisse d'Épargne Commerciale de France. "It's a sitting duck," says a Paris-based consultant Christian Saint-Etienne. Among the possible partners could be Germany's Dresdner Bank, which favors a link with Crédit Lyonnais in the upcoming privatization, but the merger of French retail banks in the crowded French market could lead to major layoffs and prompt union protests.

That kind of thinking is hobbling France's strides in Europe's financial future. The country needs more players like Bébear, who think in terms of the global stage. And in the corporate sector, financial institutions must learn to live without the coddling of a protectionist government. But France has many of the raw materials it needs to become a heavyweight in the new eurozone. With a few more strategic deals, it could live up to its realized potential.

By Gail Edmondson, Stephen Baker in Paris, Kerry Capell and Heidi in London, and Thane in Frankfurt



PARISIAN GRANDEUR

Société Générale brings strong retail banking to the Paribas merger



Plan your retirement income ahead of time. You'll have more time to worry about where the fish are." – Peter Lynch

If you're about to retire, or already have, call for your free Fidelity Retirement Income Planning Guide.

Fidelity can help you with your decisions on how to make the most of the money you've put away for retirement. And with our money management expertise, and a wide range of products, you can relax by



knowing you have an investment strategy that puts you on track with your income needs for retirement. Start today by visiting our website, or call for your free Fidelity Retirement Income Planning Guide.



WHERE 12 MILLION INVESTORS PUT THEIR TRUST.™

CALL 1-800-FIDELITY
OR VISIT US AT **WWW.FIDELITY.COM**

For more complete information on any fund available through Fidelity, including charges and expenses, call for a free prospectus. Please read it carefully before you invest or send money. Fidelity Brokerage Services, Inc., Member NYSE, SIPC.

66617.001

"I've got Windows NT
where I want it."

AS/400e=NT Integration

Now you can get the best of both worlds. Right here. Right now. Thousands of robust AS/400e business applications. And thousands of Windows NT® personal productivity apps. The good news: there's no need to stop running one to start the other. AS/400e or NT? Choose both at www.as400.ibm.com/NT3



 e-business tools

light

COMPTON ELECTRONICS SYSTEMS
CORPORATION 10000 WILSON AVENUE
FREMONT, CA 94538
TEL: (415) 875-1000 FAX: (415) 875-1001
WWW.COMPTON-USA.COM
© 1999 COMPTON ELECTRONICS
CORPORATION. ALL RIGHTS RESERVED.





They think you're slaving away in a boxy little hotel room. Let 'em.



STARWOOD
PREFERRED
GUEST

1-888-625-4988

www.preferredguest.com

Now there's a new reason to stay at Sheraton: Starwood Preferred Guest.™

The fastest and most rewarding loyalty program. There are no blackout dates and the program offers one-to-one conversion of points to airline miles on most major carriers. Starwood Preferred Guest. Be one.™



Sheraton
HOTELS & RESORTS

1-800-325-3555

www.sheraton.com

T H E R E I S A F I N E L I N E B E T W E E N B U S I N E S S
A N D P L E A S U R E . C R O S S I T .™

Sheraton is a subsidiary of Starwood Hotels & Resorts Worldwide, Inc.

- Calls for just 25¢ per minute*
- No hidden per-call service charges
- One low, \$1.00 monthly fee

Count on it.



The AT&T One Rate®
Calling Card Plan

- Backed by the powerful AT&T network
 - To enroll, dial 1 800 878-3288, x52219
- *For customer dialed domestic calling card calls using 1 800 CALL ATT®

EDITED BY JOHN TEMPLEMAN

ISRAEL: A NATIONAL UNITY PACT MAY BE THE LAST BEST HOPE

When Prime Minister Benjamin Netanyahu's fractious coalition finally collapsed in December, polls suggested that he'd be ejected from office and relegated to the books in short order. Since then, a small army of ex-generals has arisen that wants to push him to leadership of Israel's center-right. At this stage, however, the best guess is that Bibi and Labor Party leader Ehud Barak will come out on top in national voting on May 17 and runoff on Jun. 1 that produces a narrow win with a mandate.

The last thing Israel needs now is a bitter, and divisive election campaign that is unfolding. The vote is expected to produce the most fragmented government in Israel's 50-year history. The 11 parties could swell to at least 15, including a powerful new third force, the Center Party, led by former Defense Minister Yitzhak Mordechai. Such atomization of politics dims any prospect for solving Israel's biggest challenges: The peace process and the country's faltering economy.

OF A TABOO. Indeed, the problems are deep that a government of national unity may be the outcome. Once a taboo subject, a linkup between Netanyahu's Likud Party, Labor, and the new Center Party is openly pushed by Barak and others as the only way to achieve stable government. "The only real option for a Prime Minister," says a Barak Labor Party activist, "is to form a national unity government of the three major parties and possibly Shas [the Sephardic religious party]." Netanyahu last year rejected approaches from Barak to form a unity government. Despite the rebuff, the idea is landish than it seems. Ever since Netanyahu's hawkish Foreign Minister Ariel Sharon, one of Likud's leading figures, stated recently that a Palestinian state was inevitable,

the differences between Likud, Labor, and Mordechai's new centrists have narrowed considerably.

Naturally, security issues dominate the campaign and are a key to its outcome. With aging or sick rulers heading neighboring countries from Saudi Arabia to Syria and Jordan, tensions in the region are high. Palestinian leader Yassir Arafat's threats to declare statehood as early as May 4 are raising the temperature to fever pitch. So high, indeed, that Arafat, who doesn't want to help Netanyahu and hardliners, is hinting that he may delay any such step until yearend in an effort to cool the debate.

No quick tonic is at hand for the economy, either. Unemployment is at a six-year high of 8.5%, while economic growth was less than 2% in 1998 for the second year in a row. Foreign investment crumpled by 30%, to \$2 billion. The outlook for 1999 is not much brighter: The prospect of a four-month campaign has immobilized government, shattered business confidence, and set the shekel on a roller-coaster ride.

Netanyahu promised Israeli voters an economic renaissance driven by privatization and deregulation. But, after an initial flourish, the program slowed. Small parties in Netanyahu's cabinet regularly held economic measures hostage to their often narrow political demands, such as funding for religious institutions or a license for an ultra-right radio station. Netanyahu was unable to get his 1999 budget through the Knesset on schedule.

Israel has always prided itself on being the sole democracy in a region of tyrannies and dictatorships. But it cannot afford to let its vibrant political culture disintegrate into chaos. The country is already close to becoming ungovernable. That may be a bigger threat to its long-run security than any offered today by its Arab neighbors.



NETANYAHU: Set to embrace Labor?

GLOBAL WRAPUP

WIGHT OF AN OLIGARCH

Masked government heavies in Russia are adding to the woes of erstwhile oligarch Boris Berezovsky. A member of President Boris Yeltsin's inner circle, Berezovsky is losing his grip on business interests that made his net worth about \$3 billion. A recent court decision robbed him of control of Russian air carrier Aeroflot. He could now lose control of the country's biggest TV network, which could sink a deal giving

him and Rupert Murdoch exclusive rights to sell advertising on ORT.

Berezovsky is paying a steep price for running afoul of Yeltsin. The Sibneft raid was part of a federal probe into allegations that a security firm he controlled eavesdropped on Yeltsin family members.

MEXICO MULLS HUGE SELL-OFF

► Mexico is embarking on an eventual sell-off of the electrical-energy sector that could net \$50 billion for the government. President Ernesto Zedillo is sending a bill to Congress that will

end the state's monopoly on power generation and transmission and open them to private investment. He doesn't have much choice. As Mexico grows, energy demand is soaring. It needs to invest more than \$25 billion in the next six years to expand electricity supplies.

Privatization would take place after Zedillo leaves office in Dec. 2000. Zedillo's initiative faces opposition in congress, but Federal Electricity Commission workers say they support it, provided he honors a promise to avoid layoffs.



RADIO

HICKS: BEHIND THE ABOUT-FACE

Debt and infighting put Chancellor Media on the block

When Chancellor Media Corp. put itself up for sale on Jan. 20, Wall Street was stunned. After all, Chancellor had only burst on the scene last year, gobbling up radio stations across the country as well as billboard-advertising and TV outlets. Had Dallas-based buyout firm Hicks Muse Tate & Furst Inc., the driving force behind Chancellor, lost faith in its biggest media play?

Thomas O. Hicks, 53, the dealmeister who chairs both Chancellor and Hicks Muse, insists it hasn't. "We love the media business," he says. Hicks Muse will stay on as a

shareholder, he says, but decided to seek a partner because the company's shares were lagging behind rivals'. A disappointing stock performance is only part of the story, though. Corporate infight-

CHANCELLOR VS. ITS RIVALS

	CHANCELLOR	CLEAR CHANNEL	INFINITY
RADIO STATIONS	465	450	161
REVENUES*	\$2.7 billion	\$2.5 billion	\$2.25 billion
BROADCAST CASH FLOW*	\$1.28 billion	\$1.06 billion	\$1 billion
DEBT*	\$7.5 billion	\$3.79 billion	\$137 million
STOCK PRICE AS MULTIPLE OF CASH FLOW**	14.5	23	21.5

*1999 estimates **Before Chancellor was put up for sale on Jan. 20

DATA: COMPANY REPORTS, BANCOSTON ROBERTSON STEPHENS, BEAR STEARNS, BUSINESS WEEK

DEALMEISTER

If Clear Channel Communication is the buyer, the role of Chancellor Chairman Tom Hicks and his buyout firm could be greatly diminished

ing that pitted Chancellor brass against its brash new chief executive, Jeffrey Marcus, also played a role, according to former and current Chancellor executives as well as others familiar with the situation. Indeed, turmoil in Chancellor's executive suite had become so heated that "I think the only choice [Hicks] had was to fire Jeff Marcus or put the company up for sale," says one person close to the action.

REDUCED ROLE. In one fell swoop, Hicks may end up doing both. The most likely buyer for Chancellor is San Antonio-based radio and billboard-advertising giant Clear Channel Communications Inc. Clear Channel is studying an acquisition through an \$18 billion stock-for-stock transaction, says a source close to the situation. Marcus, who declined to be interviewed, won't stay on if the deal happens. Hicks Muse, which will own 27% of Chancellor after two pending deals are completed, would emerge as the largest single shareholder in Clear Channel. But its role in guiding the business—and as a rising force in media—could be greatly diminished.

At the heart of the story is the tight friendship between Marcus and Hicks, whose buyout firm created Chancellor in 1993. Before joining Chancellor as its CEO last June, Marcus, 52, spent 30 years in the cable industry, culminating in the sale of named Marcus Cable Co.—a large private operator in which he owned a minority stake—to billionaire Paul G. Allen.

With Hicks's blessing, Marcus went on a dizzying \$8 billion shopping spree to snap up television, billboard, and radio assets over a three-month period last year. That "multimedia" conglomerate played well on Wall Street, buoying the stock of Clear Channel and the recent spin-off of Infinity Broadcasting Corp. by Hicks Muse Corp. But Chancellor's stock, which climbed more than 250% from its \$10 IPO, hit a wall. By last month, it was trading at a much lower multiple than its peers (table).

A main culprit was debt, which stands at nearly seven times expected 1999 cash flow.

In 1998
while striving to
impress our
customers
we happened to
impress
the entire industry

P u t a w i n n e r t o w o r k f o r y o u

Sprint is proud to be named the Data Carrier of Choice in the 1998 *Data Communications* User Survey. We also took top honors for IP Access, Customer Service, and Frame Relay. What's more, we were given the highest ranking for Internet reliability and a Tester's Choice Award in *Data Comm's* 1998 ISP Backbone test. And we were awarded Best Information Technology of the Year by the Silicon Prairie Technology Association for Sprint ION,SM our integrated on-demand network.

We'd like to thank our customers for a great year in 1998, and this year
we think you'll be even more impressed with us.

www.sprint.com/data



We help your business do more business.

er factors: Hicks Muse's eyebrow-raising plans to draw fees from folding other companies it controls into Chancellor, as well as Wall Street's aversion to surprises. Indeed, the decision to sell came three weeks after the sudden exit on Jan. 7 of Matthew E. Devine, Chancellor's respected chief financial officer.

Sources trace that departure to Marcus' arrival last June. Soon after, Marcus began clashing with Devine and President James E. de Castro. Key issues, the sources say, were Marcus' lack of radio experience and his spending habits; one Chancellor insider recalls Marcus hiring a "jet-set pack" of former cable executives and upgrading the company's Gulfstream III to a newer, glitzier model—a Gulfstream IV formerly owned by golf legend Greg Norman.

FEE FUMES. Devine "was always challenging Jeff about costs," says one large Chancellor investor. "Jeff didn't like what [Devine] had to say." Devine could not be reached for comment. De Castro says of Marcus: "We get along very well. But, yes, we have had our differences of opinion." A rift between Marcus and Tom Hicks may have added to the tension. Sources say Hicks chafed when Marcus vetoed plans to give R. Steven Hicks, Tom's younger brother, a hands-on role at Chancellor after the planned acquisition of Capstar Broadcasting Corp., where Steven is CEO. Tom Hicks won't comment on the incident and says Marcus is "still a very good friend." But he adds that Chancellor's decision to find a new partner "will alleviate any tensions that have been built up."

If that new partner ends up being Clear Channel, analysts say as many as 100 of the two companies' combined 915 radio stations would have to be sold to satisfy Justice Dept. rules on multiple-station ownership. And still another buyer for Chancellor could emerge, including Phoenix-based billboard operator Outdoor Systems Inc.

If it's Clear Channel, sources say its CEO, L. Lowry Mays, is adamant that Hicks Muse no longer have an "advisory" or management role from which it can derive fees such as the \$54 million it is expected to pocket on two pending Chancellor deals. That may be O.K. with Tom Hicks, since his fund has already made some \$4 billion on its \$1.3 billion investment in Chancellor. "We think we will see our investment grow to between \$12 billion and \$15 billion over the next five years," he says. If that happens, Chancellor's brief, ill-fated reign as a media takeover machine will be happily forgotten.

By Stephanie Anderson Forest in Dallas and Richard Siklos in New York, with bureau reports

Marketing



MERCHANDISING

BATED BREATH IN TOYLAND

Toymakers are praying for another *Star Wars* megahit

As retailers flock to New York City this month for the annual International Toy Fair trade show, they'll need an official escort to see the biggest attraction. In a restricted area of the Hasbro Inc. showroom will be stacks of the first four-inch likenesses of young Anakin Skywalker and archvillain Darth Maul. They're part of the next generation of *Star Wars* toys, and never mind saving the galaxy. On the shoulders of this plastic army rests the fortunes of the toy industry in 1999.

Toymakers and toy sellers alike are betting big that the May release of *Episode I: The Phantom Menace*, the first movie in a new *Star Wars* trilogy, will unleash a consumer frenzy. Led by Hasbro, toymakers have paid record amounts for the right to produce action figures, building sets, and video games tied to the movie. Indeed, retailers are banking on them for Christmas. Analysts predict that sales of the licensed trinkets could exceed \$1 billion this year and \$6 billion over the next nine years as director George Lucas releases the sequels. "We believe—and this is not brain surgery—that this will be the biggest consumer-product opportunity of 1999," says Michael Tabakin, director of licensing for Toys 'R' Us.

It had better be. The toy industry

ANAKIN SKYWALKER: Will he become the hero of Hasbro?

desperately needs a hit. Retail sales in 1998 were flat and giants of the industry—Hasbro, Mattel, and Toys 'R' Us—all saw earnings decline. But banking a movie tie-in has risks. Last year, toys tied to *Godzilla* and *Babe: Pig in the City* flopped. Critics blame everything from oversophisticated kids outgrowing toys faster to a crammed release schedule that made it hard

to build an audience. "The cold reality," says Sean P. McGowan, director of search at Gerard Klauer Mattison & Co., "is that for three years now, no blockbusters have generated toy sales."

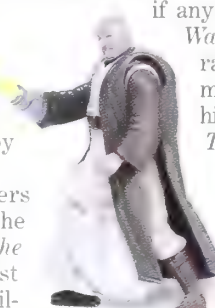
This latest *Star Wars* saga will aim to show unprecedented staying power for its licensees to make a killing. Hasbro alone has pledged an estimated \$7 million for the right to make action figures and vehicles based on the movies. To cover its up-front guarantees, analysts figure it has to cost \$3 billion in *Star Wars* toys over the next 10 years. Hasbro officials won't discuss the outlook, but analysts say profits could be limited. "I'm a skeptic," says Margaret B. Whitfield, analyst at Tucker Anthony. "It will be a great success in 1999, but then we'll have to wait two more years for the next movie."

ALL-TIME CHAMP. Still, toy execs think if any movie franchise can do it, *Star Wars* can. The original trilogy raked in a record \$4.5 billion in merchandise sales over its 20-year history, far ahead of second-ranked *The Lion King* at \$1.5 billion.

And Lucas has masterfully stoked his fans' hunger for *Star Wars*. Two years ago, he re-released the first three movies, souped up with enhanced digital imagery. Meanwhile, Hasbro and Galoob have reissued the full line of action figures, selling \$425 million

worth of toys based on the 20-year-old characters. Films that carried the *Episode I* trailer this fall saw a 22 percent spike in box-office sales. Intimidated by studios are holding back most of their kid films until later this year or next year. "It is going to blow the roof off," exclaims Peter Eio, president of Outdoor Systems Inc., which is making *Star Wars* building sets. That is, if the Force is still with these intergalactic playthings.

By Kathleen Morris in Los Angeles with William C. Symonds in Las Vegas and Ellen Neuborne in New York



OBI-WAN KENOBI

Connections

New Aircraft

Cabin Improvements

Worldwide Cargo

Prestige Class

Cabin Crew Training

Rewards Received

Aerospace Division

Morning Calm Class

Ground Services

Worldwide Network

Cuisine

Skypass Club

Asia

Europe

Americas

Oceania



Beijing, Hong Kong, and Shanghai are just a few of the destinations we fly to in China. And China is just one of the many countries we fly to. We also fly to Japan, Singapore, Bangkok – all over Southeast Asia. Where can we take you?

Earn Skypass miles or Delta SkyMiles on every flight. www.koreanair.com

Beijing, Qingdao, Shenyang 7 flights per week.

Tianjin 3 flights per week.

Expanding service to China.

Service to more than 85 cities across the globe.

1-800-438-5000

KOREAN AIR



Fujitsu Multimedia Bay comes with interchangeable CD-ROM drive and floppy disk drive. Optional DVD drive and SuperDisk™ 120 drive available for purchase separately. Fujitsu and the Fujitsu logo are registered trademarks of Fujitsu Limited. Bayport, Fujitsu, and the Fujitsu logo are trademarks of Fujitsu PC Corporation. Intel, Inside, and Pentium are registered trademarks of Intel Corporation. Windows is a registered trademark of Microsoft Corporation. All other trademarks and registered trademarks are the property of their respective owners. ©1999 Fujitsu PC Corporation. All rights reserved.

*Because
you never know what
you'll need next.*

Want tools? Want options?



The LifeBook L Series with its Detachable Multi-function Bay (standard on L440B) and optional Mobile LAN Dock gives you a variety of storage device and battery power options.

Need it all? Or would you rather pick and choose? Whatever your style, the Fujitsu LifeBook™ L Series notebook is perfect for you. With its ingenious

modular design, you can go from extremely portable to extremely

powerful in minutes. It's slim and light,

(a mere 1.1" thin and 4.4 lbs. light) yet

full of the basics you demand, like a fast

Intel® Pentium® II processor and Windows®

OS pre-installed. It's the one tool you

need to get ready for who knows what.

FUJITSU

FUJITSU PC CORPORATION

Built for Humans™

For more info, visit www.fujitsu-pc.com/dm
or call 1-888-4-ON-THE-GO.



CAMPAIGN 2000

'WE NEED TO THINK BIGGER THOUGHTS'

A talk with Bill Bradley as he takes to the stump

Bill Bradley is trying to perfect a new tactic in the Presidential full-court game: the slow-break offense. The one-time New York Knicks star and New Jersey senator is practicing his moves these days in Iowa and New Hampshire—where he hopes to upset Democratic front-runner Al Gore next year. In a Jan. 6 interview with Washington Bureau Chief Lee Walczak and other editors, Bradley was cagey about issues—but promised a big reform agenda in the days ahead.

Q: The country has peace and prosperity. What void does President Bradley fill?

A: The reason I'm running is to try and unleash the potential of the American people. We see that potential every day in our economy and technological progress. You need to take that energy and turn it toward areas that need action—early childhood [aid] and improving education and health care. You need to turn it toward reforming the international financial system, to thinking through what technological progress implies for the tax system. We're in a period of incredible change, and we need to think bigger thoughts.

Q: What's your big reform for taxes?

A: You collect taxes for income generated where value is added or where sales are made. As you move more into a cyber economy, it's difficult to tell where those points are. You need to say: What's the most important tax and the surest to be collected? And what's the most onerous tax? The Social Security [payroll] tax. Maybe there's another revenue source to replace it, thereby creating jobs. My general view is that there could be lower rates with fewer loopholes. That's a significant difference between me and most people in the Administration. I think that they like loopholes. They have increased them dramatically over the years.

Q: You spent a year lecturing out in Silicon Valley. Did you become a New Economy convert?

A: What's happening in the Valley is incredibly exciting. The New Economy is creating jobs in places rich [in knowledge skills] and in cyberspace. I think it is a major jobs generator and by and large, the jobs are higher paid, not low-



Administration... like loopholes. They have increased them dramatically over the years"

BRADLEY IN NEW HAMPSHIRE

er paid. The extent to which this is changing the face of our economy and our lives accelerates every day.

Q: Why stake your Presidential bid on a seemingly quixotic call for a campaign-finance overhaul?

A: It's the most important reform we could enact, as important as any in the 20th century, with the exception of the expansion of voting rights in the '60s. Money fundamentally distorts our democracy today. We live in a system of one person, one vote. But we all know some people have a lot more clout [due to campaign spending].

Q: You really think reform has a shot?

A: Once people realize that they're paying higher taxes because of the way we

finance our political campaigns, we'll get broader support. For every \$500,000 someone got a loophole or a regulatory ruling that cost the rest of us.

Q: Is there a backlash building against globalization?

A: Globalization, managed properly, is an enormous positive. Open trade is a key to higher living standards. Yet to live in a world where domestic economic decisions, if they're sound, will attract capital and if they're unsound, will frighten capital. It puts a real premium on managing your own economy well.

Q: Do you associate yourself with the Jesse Ventura phenomenon, anti-politics?

A: I was signing books in Minnesota the day after his election [as governor], and someone asked me about it, and I said I was surprised. The guy said: "You shouldn't be." Ventura won because he spoke directly to the people. Now, I think there's a disconnect between Washington and the rest of the country [over impeachment]. The message of the House Republican is that of a bunch of guys

TAX REFORM

"Most people in the

ing to catch a cat on a boat. In the home, turn on the news shows, and say: "What relation does this have to the economy? And the answer is: "Zero." It's an exercise in self-absorption.

Q: Will you run as an outsider in 2000?

A: I'll run as me.

Q: And what's the essence of your Bradley 2000 pitch?

A: You'll see over the course of the year. This is not something of a prepackaged phrase. It will come from the heart, and has to connect with the people. It will be, I hope, a clear direction for the country. We'll see.

For an expanded version, go to www.businessweek.com or AOL: keyword

It's so rewarding watching a youngster fail over and over, only to learn from his mistakes. Just not when it's a consultant who's charging you \$275 an hour.



Our consultants average 13.5 years of experience. We figure you're paying them for their business insight, not their business education.

KPMG

It's time for clarity.

Would your company be interested in saving 38¢?

How many times would you have to
hear this before it became interesting?



© 1999 Microsoft Corporation. All rights reserved. Microsoft, BackOffice, Windows NT, and Where do you want to go today? are either registered trademarks or trademarks of Microsoft Corporation in the United States and/or other countries. Other product and company names mentioned herein may be the trademarks of their respective owners.



A few examples of Microsoft based business-to-business commerce solutions:

s of thousands of resellers
-time inventory and order
itus access

er 20,000 of their business
stomers to purchase goods
n custom catalogs and pricing.

nsbury, one of the UK's
rgest retailers, is integrating
ndreds of disparate suppliers
a Web based value chain
nagement system.

In business seldom are millions saved with one act. More often it's the small improvements that add up to a big impact on the bottom line. And that's where we can help. A commerce solution built on a scalable, flexible Microsoft® platform of Windows NT® Server, BackOffice®, and Office can help your company increase efficiency and productivity, save money and time, and even bring you closer to your customer. Best of all, you can start right now using many of the systems you already have, along with our wide range of partners, to address your specific needs. To find a Microsoft Certified Solution Provider who can help you, or to get the free Digital Nervous System: Commerce Solutions CD, call (888) 674-6686 or visit www.microsoft.com/dns/

Microsoft

Where do you want to go today?™

HOCKEY

FIRE AND ICE AT THE NHL

How can it have so many problems—and be doing so well?

Gary B. Bettman, commissioner of the National Hockey League, has learned to skate a narrow, treacherous line. One moment, he is passionately promoting a sports enterprise that is thriving in such unlikely places as Nashville and Phoenix and that has seen the price of expansion franchises rise 60% in five years. The next moment, he is dousing financial fires from Pittsburgh to Vancouver, watching one NHL team declare bankruptcy, monitoring a half-dozen Canadian clubs mired in a currency-exchange crisis, and listening to team executives whine about a dangerous spiral in player salaries. The latest bad news: TV ratings for the NHL All-Star Game on Jan. 24 were down 19% from last year.

Hired away from the National Basketball Assn. and from the shadow of his mentor, NBA Commissioner David J. Stern, Bettman's mission was to take the NHL out of the Ice Age. And certainly he has done that. He has also put millions into the pockets of owners and players alike. But Bettman, 46, has failed to contain costs. Despite all his marketing energy, the NHL remains a weak sibling to the other big-time sports leagues. With its fundamental flaws of low youth participation, few U.S.-born players, and

relatively small TV audiences and revenues, can Bettman, or anyone, ever take the NHL to a higher level?

When Bettman arrived in February, 1993, the NHL had a public-relations staff of one, a tiny cable-TV contract, and, most assuredly, no vision. Its marketing was a shade better than second-graders hawking lemonade. Almost single-handedly, the new commish had to upgrade its TV deals, get the NHL into the Olympics, and introduce pro hockey to such new frontiers as Miami and Raleigh, N.C.

Now, Bettman, like Stern a lawyer by training, finds his hyperactive 5-foot, 6-inch body being checked into the boards by the harsh—"insane," as one former NHL owner says—realities of pro sports economics and the peculiarities of the NHL. In stark contrast to Stern's hard-nosed victory last month in containing basketball player costs, Bettman's tenure has seen average salaries rise 250%.

In part, Bettman and his owners boxed themselves in. They had their chance during contract talks in 1995 to press for a salary cap or some form of internal taxation from the National Hockey League Players Assn. (NHLPA). But the players held firm, and the owners rejected the union's modest proposals to tax teams that overpay players. The resulting



agreement, twice amended, now runs until the 2004 season with no escape for

NHLPA executive Bob Goodenow maintains that the agreement is working, well-managed teams are flourishing, and the league is healthy. Bettman is less sanguine, volunteering player salaries



DATA BUSINESS

BUMPS, BODY CHECKS...

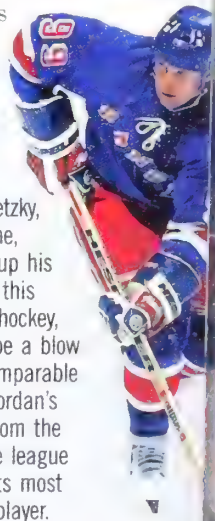
● The bankruptcy of the Pittsburgh Penguins is but one sign that the rich team-poor team problem besetting other leagues may actually be worst in the NHL.

● When he became commissioner six years ago, Gary Bettman was essentially starting from scratch. But has he taken the league too far, too fast?

● NHL player salaries have risen 250% since Bettman took over. The owners had a chance to install a salary cap in 1995 but didn't. And their contract has no escape until 2004.



● Wayne Gretzky, the Great One, could hang up his skates after this season. For hockey, that would be a blow not quite comparable to Michael Jordan's retirement from the NBA, but the league would lose its most marketable player.





IS HOCKEY DESTINED TO REMAIN A CULT SPORT—WITH A RICH AUDIENCE?

risen faster than league revenues the past two years. "There are franchises spending more than they should. It's something we've got to continue to watch," he says.

In December, the Boston Bruins' vice-president, Harry Sinden, revealed league-wide, the NHL is paying 72%

of its revenues to its players. Bettman won't confirm that and cautions that such figures can be misleading. Still, on its face, Sinden's NHL calculation is 15% higher than NBA owners thought was enough to lock out its players and 17% more than NBA players will capture at the end of their just-signed six-year agreement.

...AND REASONS FOR OPTIMISM

Used goods are hot in the face of a market for major-league merchandise. Last year, the NHL was valued at \$1.2 billion in revenue last year. Corporate sponsorships now bring in more than \$1 billion a year.

- Last August, the NHL signed a five-year, \$600 million television deal with ABC and ESPN. That's far from the NFL's eight-year, \$17.6 billion contract, but it's up from a tiny cable deal when Bettman took over.

- The valuations of NHL franchises, while nowhere near those of the NFL or Major League Baseball, are rising swiftly. The Phoenix Coyotes, sold for \$67 million in 1995, now command \$87 million.

- With no rules against corporate ownership, NHL teams have been bought or started by Disney (the Ducks), Comcast (the Flyers), Ascent Entertainment (the Avalanche), and Time Warner (the Thrashers). That strengthens hockey's underpinnings.

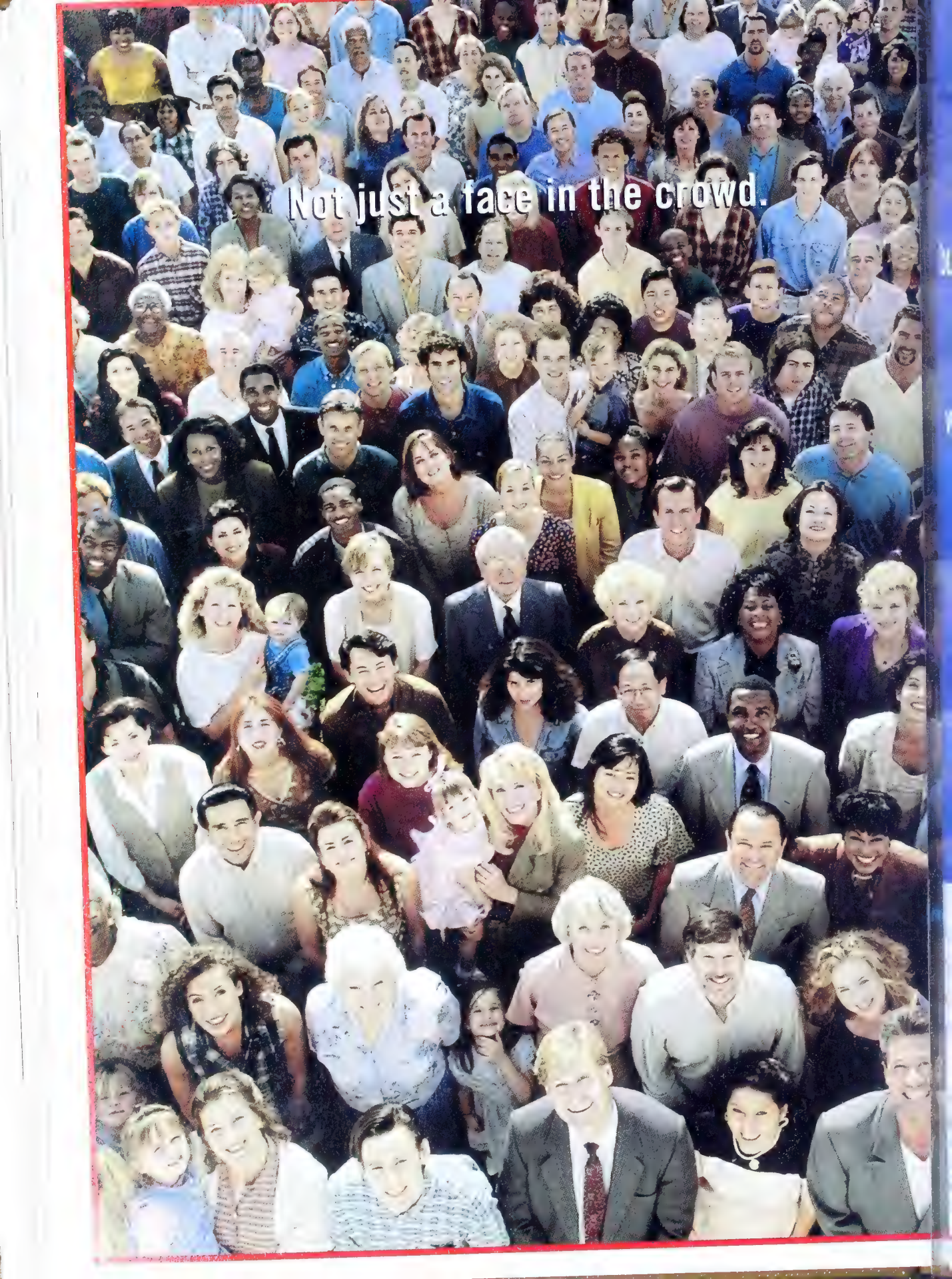
For the truncated NBA season, the salary cap per team is \$30 million. Fourteen of the NHL's 27 teams have payrolls higher than that this season. And under their national TV contracts, an NHL team gets \$16 million less than an NBA franchise receives. The NHL relies more heavily on arena revenues, and ticket prices are now the highest in the major leagues, with an average this season of \$42.79, according to *Team Marketing Report*, an industry newsletter.

BIG TEARS. "I think we have reached a crossroads where we need to address some things fairly quickly," says Pierre Gauthier, president of the Mighty Ducks of Anaheim. Gauthier claims his team, owned by Walt Disney Co., will run a \$7 million to \$9 million operating loss this season, even though it plays to 92% capacity in the Arrowhead Pond, its six-year-old arena, and even though its payroll, at \$30.4 million, is only the 14th highest. "If we're starting to lose money, I suspect there's probably a lot of teams that are losing money," he says.

Of course, there is no major-league general manager who doesn't cry big tears on cue. And looking only at payrolls gives a distorted view, says Goodenow. "At the end of the day, franchise value... is the best indicator of the health of the league," he says. Under Bettman, franchise values have soared. As recently as 1993, new NHL franchises cost \$50 million. In the latest round of expansion, which began this season in Nashville and will eventually mean new teams in Atlanta, St. Paul, and Columbus, Ohio, the price to join the NHL club has jumped to \$80 million.

In 1995, the lowly Winnipeg Jets were sold for \$67 million and at Bettman's urging, moved to Phoenix. Today, the Phoenix Coyotes have an estimated value of \$87 million and are dickering to build a new arena in Scottsdale. That could push their value into the league's



A large, dense crowd of people of various ages, ethnicities, and genders are smiling and looking towards the camera. The group is arranged in many rows, filling the frame. The text "Not just a face in the crowd." is superimposed over the upper-middle part of the image.

Not just a face in the crowd.

**"It's an unsettling thought,
but if every other technology company in the
world mysteriously disappeared,
we could probably get by on NEC alone."**

— THE RED HERRING

That's because NEC's expertise spans the computer, communications, imaging and semiconductor technologies that together make up the world of multimedia. Our ATM systems integrate voice, video and data so you can collaborate on just about any kind of project with colleagues just about anywhere. Our graphics accelerators give countless interactive games their turbocharged thrills. Our full-color, hand-held computers let you slip your office into your briefcase. Our new, flat panel monitors are delivering superior image quality from almost any angle. And our virtual microscopes are creating a whole new way to study the motions of molecules. Discover the world of multimedia. Because it's your world. And NEC can help you run it.

www.nec.com 1.800.338.9549

**just imagine
NEC MULTIMEDIA**

NEC

Sports Business

upper tier. According to some published estimates, 19 NHL franchises are worth at least \$100 million.

Still, some NHL owners are looking doom in the face. Last October, the debt-strapped Pittsburgh Penguins, with \$37.5 million in operating losses over the past two seasons, filed for Chapter 11. And last December, the partnership that owns the St. Louis Blues and privately built the \$135 million, four-year-old Kiel Center, sent out a cash call to its investors seeking a \$17.7 million infusion to cover operating losses. The Blues are now for sale.

SLOWPOKE? Meanwhile, the NHL's six remaining Canadian-based franchises are getting whacked by an unfavorable currency exchange rate that has teams taking in Canadian dollars—worth 65¢ U.S.—while paying out U.S. dollars to its players. The problem is so serious that Bettman engineered a modest revenue-sharing program that will give \$3.5 million each to franchises in Calgary, Ottawa, and Edmonton. "Anything that would diminish our role as Canada's national pastime would be a severe negative to this league," says Bettman.

Add it all up, and there's an overarching question: Has Bettman moved too

fast or too slow? More teams mean more of a national presence, added TV exposure, and greater brand recognition for the NHL and its increasing number of corporate sponsors. But it also has meant more jobs for players and thus, a seller's market when it comes to star free agents. TV ratings still bring up the rear, as do NHL rights fees, when compared with the other major leagues.

The pressure is to move faster. "This can't be the sport of the future forever," says Brian Lawton, a former union activist and now president of the hockey division of Advantage International, the agency that represents the NHL's best-paid player, Sergei Federov. "Gary looks at things and says, 'We've made enormous progress,' and he's right," says Richard Burke, owner of the Phoenix Coyotes. "But I look at the same thing and say, 'Gary, we need to go faster.'"

Bettman bristles at the notion that the league is behind schedule. "It's a slow build. You do it a step at a time," he says. "You won't see the impact of what we're doing—nobody will—for another 5 to 10 years."

In fact, Bettman's record suggests that he is anything but a slow-poke. In his first six years, league revenues have

mushroomed.

Corporate sponsorships are up from \$25 million to \$250 million, thanks to ties with national brands such as Nike, MBNA, and Wendy's International. NHL licensed goods are hot, too, accounting for \$1.2 billion in retail revenue last year.



OLL PAIN: "If we're starting to lose money,"
author of the *Mighty Ducks*, "I suspect
probably a lot of teams . . . losing money"

PAYCHECK? \$14 MILLION, YET MOST AMERICANS HAVEN'T HEARD OF HIM

nal TV might be the greatest coup
When Bettman took over, the
had only a tiny cable-TV contract
gave each team less than \$1 million
Compare that with the five-year,
million deal that the league signed
ABC Inc. and ESPN Inc. last Au-
Still small by National Football
and NBA standards, it was such
tonishingly large package for the
that Bettman felt obliged to say,
a wink, that he hadn't negotiated
a mask and a gun."

NHL is also attracting a new
of owners—media companies.
ast Corp. bought the Philadelphia
s, Ascent Entertainment Group
ols the Colorado Avalanche, and
Warner's Turner Sports grabbed
pansion Atlanta Thrashers. Dallas
cast mogul Thomas O. Hicks (page
airman of Chancellor Media Corp.
wner of the Texas Rangers base-
eam, owns the Dallas Stars.
is has the NHL laid the foundation

for that immutable principle of sports
ownership: The more money owners
have, the more freely and irrationally
they spend it. Average player compen-
sation, despite a labor deal that the
commissioner says restricts player
movement, is up from \$467,000 the year
before Bettman took over to \$1.17 mil-
lion last season, union records show.
Federov, whom most American sports
fans might identify as a cosmonaut or
victim of a Boris Yeltsin purge, will be
paid \$14 million by the Detroit Red
Wings this season. That's the top salary
allowed a 10-year NBA veteran this year.
Just five years ago, the Wings' entire
payroll was about \$15 million.

While the NHL is playing with the
big boys when it comes to costs, pro
hockey still remains a virtual cult sport.
Bettman points to the rapid growth of
the game in nontraditional locales, but
the absolute numbers are minuscule. So
it's no wonder that hockey's ratings re-
main relatively flat. Still, that hasn't

discouraged ABC and ESPN. Steven M.
Bornstein, president and CEO of ESPN
and ABC Sports, says sluggish ratings
are not a concern because the NHL de-
livers "quality of audience." The league
scores well with 18-to-34-year-old males
that sponsors pay handsomely to reach.

Still, the NHL faces the bane of the
major leagues: the rich market-poor
market divide. Already, Detroit (\$48.3
million) is paying players \$35 million
more than the expansion Nashville
Predators (\$13.6 million) pay theirs. For
now, some lesser-paid teams are still
high in the standings. But unless the
owners with the new arenas, bigger
markets, and deep pockets begin to
share revenues with their poorer
brethren, the NHL could be headed for a
baseball-like quagmire: some teams with
competitive hope, others without.

So the Bettman-driven economic
growth of the past six years has created
a hazy future. "I think the NHL was at a
point where it had to move away from
its roots to expose itself to all sorts of
possibilities," says Bob Gainey, a Mon-
treal Canadiens Hall of Fame defense-
man who is now vice-president of the
Dallas Stars. But, he cautions, some-
times you have to be careful what you
wish for.

*By Jay Weiner in St. Paul and
Mark Hyman in New York*



The advertisement features a photograph of a red Mercury Sable sedan parked on a dirt road. In the background, there is a stone wall and two coin-operated binocular viewers. The setting appears to be a scenic overlook with a view of a river and distant hills. The text is overlaid on the bottom half of the image.

Mercury Sable. Imagine yourself in a Mercury

Sable LS Premium features include: 5-star government crash test rating* • 200-HP V-6 engine
• leather seating surfaces • automatic temperature control • 800 446-8888 • www.mercuryvehicles.com

Never underestimate the importance of people.



Hewlett-Packard Associates LLC
© 2000 Hewlett-Packard Company

A friendly reminder from the people who can get the best out of yours.

Hew

Improving Business Results Through



SONAL COMPUTERS

OW LEGEND IVES UP TO ITS NAME

state-owned PC maker aims to become a Chinese IBM

he shiny new research center for Legend Holdings, China's leading PC maker, is teeming with activity. Young hipsters and nerds alike down corridors or clack on keyboards. While two-thirds of the 120 researchers are designing new computers, the rest are testing everything from smoothie they run software to happens when they fall off a desk. How well they hold up in the plus sizzle of China's summer. In the far, Legend—and its PCs—are emerging up just fine. Even in its research center, match the resources of Apple or IBM, it is Legend that's turning up the heat. Those rivals and others. The \$758 million Beijing-based computer company its sales grow by

106% last year, making it the biggest seller of PCs in the fastest-growing computer market on earth—a title that foreign rivals had hoped to capture. But with 15% of China's sales, Legend has twice the market share of its closest competitor, IBM. "We plan to be among the top 10 PC manufacturers in the world by 2000," vows Yang Yuan-qing, general manager of Legend Computer Systems Ltd. Legend's goal: to sell 1.5 million computers in 2001, up from 800,000 units today.

Legend's vast distribution network has stymied foreign makers

PICK AND PAY: To lure first-time users, Legend stresses state-of-the-art PCs.

How did Legend dash the dreams U.S. PC makers had of dominating the Chinese market? Credit the company's low prices, broad product range, helpful software, and vast distribution network. Just as important have been Legend's strong links to the Chinese government, which accounts for 25% of Legend's sales, and the decision to push state-of-the-art PCs, not yesterday's models. That helped remove the stigma associated with buying a local computer. Consumers "stopped being ashamed of buying a Chinese brand," says Sean Maloney, senior vice-president for sales and marketing at Intel Corp., which urged Legend to sell the more powerful PCs. "Legend has become synonymous with high tech."

LOCAL HERO. The computer maker is also benefiting from China's love affair with the PC. Desktop-computer sales there are expected to swell 30% this year—double the growth that's forecast for the U.S. market. If this torrid pace keeps up through 2002, some 10.3 million PCs will be sold in China that year, making it the No.3 market in the world following the U.S. and Japan. (Sales are higher in the U.S. and Japan.) But Legend's ambitions go well beyond the



PC. The company is aiming for nothing short of becoming China's version of IBM—a full-service provider of computers, software, and high-tech knowhow. In the past 12 months, Legend has parlayed its local savvy into development and marketing alliances with Microsoft Corp. and IBM, among others, to take the company into new markets, including software and systems-integration services for China's businesses. This month, Legend plans to sell in China a handheld computer that will challenge 3Com Corp.'s popular Palm computer. "As a local company, we have much more insight into the needs of Chinese customers," says Legend's Yang.

In China, hand-holding is need No. 1. After all, it is a population of PC newbies with only 1 out of every 175 Chinese currently owning a computer. Legend understands this better than foreign PC makers do. The company has developed a variety of software products for first-time customers that are bundled with its PCs, including tutorial programs on everything from using the World Wide Web to mastering home finances.

Legend will test just how well that formula works in a new market: palm-size computers. After one year of development work with Microsoft, Legend's palm-size computer, called Tianji, will appear this month running Microsoft's Windows CE software. As with PCs, Legend has tailored the product to the local market by including a stylus for entering Chinese characters and English letters and by installing a powerful English-Chinese dictionary. Legend and Microsoft also are working with 10 local software companies to develop applications for the product. And with a price of around \$540 in China, the Tianji is \$60 less than the price of 3Com's Palm computer.

HEMORRHAGE. Just two years ago, Legend might have been viewed as the least likely to survive. The company, founded in 1984, was hemorrhaging \$25 million a year and lagging behind multinational rivals IBM, Hewlett-Packard, and Compaq. Then Legend launched a vicious price war, cutting prices three times in one year. With lower production and distribution costs than its foreign rivals, Legend now sells its desktop PC with a Pentium II chip for about \$1,200, or 30% less than IBM or Compaq.

State-owned Legend, which is listed on the Hong Kong stock exchange, has something else going for it: a strong distribution network. That's what has stymied foreign competitors (page 78).



ORDERS OF MAGNITUDE

The company's sales have soared by 70% in two years

Last summer, Legend inked a deal with IBM to pre-install Legend PCs with IBM software, including a Chinese-language version of IBM's ViaVoice speech-recognition software. Legend also is developing software for China's telecom, finance, and aviation sectors. "On the one hand, we compete with Legend," says D. C. Chien, general manager of distribution

In the past 10 months, Legend has added 800 distributors and now has close to 1,800 across China. It also has its own retail stores that sell Legend products, make repairs, and offer free training for China's often first-time users—including home visits. With 11 shops now open, Legend plans to have more than 50 by yearend. "They have an extremely well-developed distribution network," says Tony C. Leung, director of Greater China marketing for Compaq in Hong Kong. "It will take a lot of time to catch up."

That's why no foreign company can afford to ignore Legend. Its superior distribution network and strong government connections spell opportunity.

IBM's Greater China Group. "But on the other hand, they are our second-largest partner in China."

ACHILLES' HEEL. Despite its standing in PCs, Legend needs foreign help to expand into corporate software and services. Last fall, for example, the company signed deals with Lotus Development Corp. and Oracle Corp. to resell graphics and database software to Chinese businesses. "They still are relatively weak in R&D and in software," says Hu, managing director of the U.S. Information Technology Office, an industry association in Beijing.

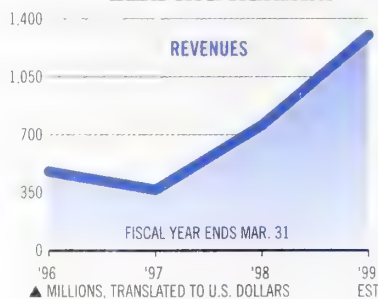
For now, that is. In late November, Legend and Computer Associates International Inc. agreed to a \$3.5 million software joint venture. First task: create a software development team to compete with Microsoft's Visual Basic. The software will be available in the Chinese market this summer.

Legend isn't relying strictly on the kindness of foreigners to create a software stronghold. It recently invested \$4.5 million to become the leading shareholder of Kingsoft, a Chinese software company. The two will develop Chinese word processing, dictionary, and spreadsheet programs. And in November, the government announced it would send more than 400 researchers from the Chinese Academy of Sciences—a national research tank—to work at Legend's research center. The move gives Legend much-needed brainpower in its quest to develop more software and more powerful computers.

With China's computer market in a lone bright spot in a now-battered region, competition is bound to be intense. It will take more than frenetic marketing and hipsters to keep Legend on top.

By Dexter Roberts, with Joyce Nathan, in Beijing and with Bruce Horn in Hong Kong

LEGEND'S SALES ARE LEAPING AGAIN...



...AND PROFITS ARE BACK



DATA: BLOOMBERG FINANCIAL MARKETS, ABN AMRO ASIA

DEFENSE DEPT.



You and your family have a strong ally in the daily battle to keep your food safe. Plastic bottles, plastic wraps and plastic containers reduce the potential for food spoilage and help protect products from contamination. And, super-evident plastic seals provide an extra measure of product safety assurance. They're all working to keep your family's food protected from the moment it's packaged until the time it arrives home. To learn more about the benefits of plastics, contact the American Plastics Council at www.plastics.org or call 1-800-2-HELP-90.



**American
Plastics
Council.**

PLASTICS MAKE IT POSSIBLE.®

© American Plastics Council. All rights reserved.

FOREIGN RIVALS VS. THE CHINESE: IF YOU CAN'T BEAT 'EM...

Humility is not a word normally associated with Compaq Computer Corp. After all, you don't get to be No. 1 in PCs by being humble. Yet when it comes to cracking the market in China, Compaq is conceding that it has a lot to learn. Having tried for five years to operate a joint venture with Beijing's Stone Group—in what is now one of the world's fastest-growing markets—the Houston-based company has little to show for its effort but an anemic 4% market share.

Now, Compaq is trying to reboot. As part of its new strategy, the company is cutting deals with personal computer manufacturers around the country—but it's making sure this time that partners will focus on improving Compaq's market share. In

“We are working with someone who understands the [Chinese] market better than we do”

— TONY C. LEUNG, Compaq's marketing director for Greater China

October, for example, Compaq signed an agreement to put its brand name on computers made by Dawn, a small PC maker in the grimy city of Shenyang in China's northeast, a part of the country better known for its hulking heavy industry than its high-tech prowess. No matter, says Tony C. Leung, Compaq's marketing director for Greater China. “We are working with someone who understands the market better than we do,” he says.

CATCH-UP. Think of it as the Legend lesson. Foreign PC makers have discovered the hard way that local companies have established distribution networks, provide better service, and offer lower prices. Compaq is just one of many foreign PC makers playing catch-up in China. From IBM to Dell to Toshiba, companies that dominate other global markets are taking a second look



at their strategy for the world's largest emerging PC market. Beijing's recent crackdown on smuggling has changed the landscape for foreign PC makers: They can no longer rely on producing low-priced machines in other parts of Asia that can then be brought into China by third parties. Now, PC makers are working more closely with Chinese partners and are decreasing their reliance on imports.

It wasn't supposed to happen this way. A few years ago, most analysts were convinced that the global powers would gobble up the Chinese market, with locals like Legend stuck in second-tier status—at best. Instead, the foreigners are trailing Legend (table). Moreover, the foreigners are steadily losing market share. Locals enjoyed sales growth of 65% in the first three quarters of 1998, far outpacing the meager 14% of major foreign players Compaq, Hewlett-Packard,

and IBM. Indeed, the top four foreign PC makers command just 19% of the market, down from 21% the previous year. That compares with 23% for the top four local players according to International Data Corp.

HIGH BARRIER. The grim numbers are making many foreign PC makers recognize the need for a change. Take Toshiba Corp. Like Compaq, the Japanese giant is expanding its ties with local partners. It recently announced a new joint venture with Chinese PC maker Tontru Informatics Industry Group Co., which is tied with Com-

paq for fourth place in the Chinese market. Meanwhile, IBM has expanded its joint venture with Great Wall Group in Shenzhen, increasing its stake to 70% from its original 51%.

Companies also are trying to break through one of China's biggest barriers: the distribution system. With China's notoriously inefficient transportation system, companies rely on a vast number of local distributors to get their computers to customers, who often turn to the distributor for help with service. Dell Computer Corp. figures that its trademark direct-sales model can help it overcome that disadvantage. It opened a manufacturing plant in the southern city of Xiamen last year and has 300 people working in China. Manufacturing locally, rather than importing machines from a factory in Malaysia, helps Dell compete better with Legend and other Chinese companies. Until Dell opened its Xiamen plant, it had to pay 17% import duty on all its computers sold in the country. Meanwhile, to overcome the idea that foreigners can't offer the kind of service that locals do, Dell also has set up toll-free hot lines to offer technical support. The company even started selling computers over the Internet in China.

For beleaguered foreign PC makers, moves like that may turn out to be the key to the China market.

By Bruce Einhorn in Hong Kong

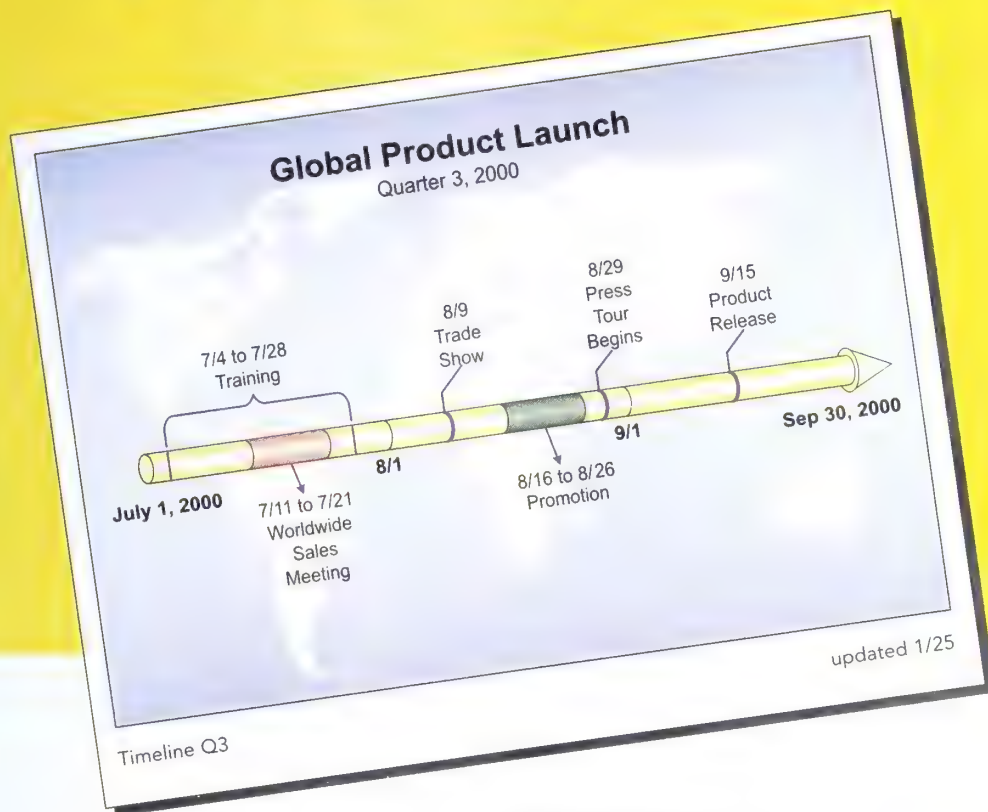
WAY OUT IN FRONT IN CHINA

Total 1998 estimated sales: 3.9 million units

	MARKET SHARE
LEGEND	13%
IBM	7
HP	6
COMPAQ	4
TONTRU	4

DATA: INTERNATIONAL DATA CORP

SAVE A THOUSAND WORDS.



www.visio.com/save

Let's face it, long text is inefficient, cumbersome, and, well, long. With Visio® Standard 5.0 you can consolidate big ideas into concise, polished diagrams. (Check out the launch timeline above.) Quickly communicate entire process flows, organizational structures, timelines, and more. Then drop your diagrams right into Microsoft Word, Microsoft PowerPoint, e-mail, even distribute them over the web. It's time to move beyond mere words with Visio Standard 5.0, the undisputed leader in business diagramming. Call 1-800-24-VISIO, reference A479. Or see it in action at www.visio.com/save.

FREE MICROSOFT® INTELLIMOUSE® WITH PURCHASE OF VISIO STANDARD 5.0.

SEE VISIO STANDARD BOX FOR DETAILS. OFFER VALID WHILE SUPPLIES LAST. EXPIRES 6/30/99.





Generation

Today's teens
—the biggest
bulge since the
boomers—may
force marketers to
toss their old tricks

At malls across America, a new generation is voting with its feet.

At Towson Town Center, a mall outside of Baltimore, Laura Schaefer, a clerk at the Wavedancer surf-and-skateboard shop, is handling post-Christmas returns. Coming back: clothes that fit snugly and shoes unsuitable for skateboarding. Schaefer, 19, understands. "They say 'My mom and dad got me these,'" she says.

Cover Story

At the Steve Madden store in Roosevelt Mall on Long Island, N.Y., parents, clad in loafers and Nikes, are sitting quietly amid the pulsating music while their teenage daughters slip their feet into massive Steve Madden platform shoes. Many of the baby boomer-age parents accompanying these teens look confused. And why not? Things are different in this crowd.

Asked what brands are cool, these teens rattle off a list their parents blank on. Mudd. Paris Blues. In Vitro. Cement. What's over? Now, the names are familiar: Levi's. Converse. Nike. "They just went out of style,"

AT THE MALL: Schaefer, 19, a sales clerk at the Wavedancer surf-and-skateboard store in Towson, Md., keeps tabs on Gen Y fashions.

shrugs Lori Silverman, 13, of Oyster Bay, N.Y.

Ouch. Some of the biggest brands on the market are meeting with a shrug of indifference from Lori and her cohorts. A host of labels that have prospered by predicting—and shaping—popular tastes since the baby boomers were young simply aren't kindling the same excitement with today's kids. Already, the list includes some major names: PepsiCo Inc. has struggled to build loyalty among teens. Nike Inc.'s sneaker sales are tumbling as the brand sinks in teen popularity polls. Levi Strauss & Co., no longer the hippest jeansmaker on the shelf, is battling market share erosion. Meanwhile, newcomers in entertainment, sports equipment, and fashion have become hot names.

What's the problem? These kids aren't baby boomers. They're part of a generation that rivals the baby boom in size—and will soon rival it in buying clout. These are the sons and daughters of boomers.

Born during a baby bulge that demographers locate between 1979 and 1994, they are as young as five and as old as 20, with the largest slice still a decade away from adolescence. And at 60 million strong, more than three times the size of Generation X, they're the biggest thing to hit the American scene since the 72 million baby boomers. Still too young to have forged a name for themselves, they go by a host of taglines: Generation Y, Echo Boomers, or Millennium Generation.

Marketers haven't been dealt an opportunity like this since the baby boom hit. Yet for a lot of entrenched brands, Gen Y poses mammoth risks. Boomer brands flopped in their attempts to reach Generation X, but with a mere 17 million in its ranks, that miss was tolerable. The boomer brands won't get off so lightly with Gen Y. This is the first generation to come along that's big enough to hurt a boomer brand simply by giving it the cold shoulder—and big enough to launch rival brands with enough heft to threaten the status quo. As the leading edge of this huge new group elbows its way into the marketplace, its members are making it clear that companies hoping to win their hearts and wallets will have to learn to think like they do—and not like the boomers who preceded them.

Indeed, though the echo boom rivals its parent's generation in size, in almost every other way, it is very different.

This generation is more racially diverse: One in three is not Caucasian. One in

four lives in a single-parent household. Three in four have working mothers. While boomers are still mastering Microsoft Windows 98, their kids are tapping away at computers in nursery school.

With the oldest Gen Yers barely out of high school, it's no surprise that the brands that have felt their disdain so far have been concentrated in fashion, entertainment, and toys. But there's a lot more going on here than fickle teens jumping on the latest trend. While some of Gen Y's choices have been driven by faddishness and rebellion, marketing experts



COOL

ACCORDING TO BOOMERS

◀ **LEXUS LS400:** What to do when you have your own spot. It says you've arrived out the ostentation of a Bo

MAJOR LEAGUE BASEBALL Mark McGwire and the New York Yankees have made the game hot again.

◀ **GAP** Those chinos and jeans still look cool. R

ER A worthy successor to *Marcus Welby, MD*

SUPERBOWL ADS Usually they're more entertaining than the game.

◀ **HARRISON FORD** Tough and fiftysomething. Plus, his action figure is a hot collectible.

ESTEE LAUDER For the way we ought to

L.L. BEAN A favorite for decades, but does actually go duck-hunting in those boots.

PALM PILOT A Rolodex for your pocket, with a high-tech edge.

NICK AT NITE All our favorite reruns in a convenient place.

◀ **POLITICAL ACTIVISM** Make yourself heard.

THE BEATLES Rock 'n' roll as the signal achievement of a generation.

◀ **COKE** Water + sugar + caffeine. Besides, it's the real thing.

DAVID LETTERMAN Late-night TV, slightly mellowed age. Still among the Top Ten reasons to stay awake.

NIKES From Michael to Tiger, no shortage of sports celebs saying Just Do it. ▶

say those explanations are too simplistic. "Most marketers perceive them as kids. When you do that, you fail to take what they are telling you about the consumers they're coming," says J. Walker Smith, a managing partner at Yankelovich Partners Inc. who specializes in general marketing. "This is not about teenage marketing. It's about the coming of age of a generation."

Smith and others believe that behind the shift in Gen Y beliefs lies a shift in values on the part of Gen Y consumers. Having grown up in an even more media-saturated, less conscious world than their parents, they respond to advertising differently, and they prefer to encounter those ads in different places. The marketers that capture Gen Y's attention do so by bringing their messages to the places these kids congregate, whether it's the Internet, a snowboarding tournament,

Cover Story

Some of the biggest, most successfully marketed brands

TUFF

NG TO GENERATION Y

ANGLER Who cares s mileage? It looks the high school ot. ►

ARD TRIPLE CROWN Stars compete for lead of multiyear contracts. ►

Definitely not your mother's dress catalog.

S CREEK High school drama with sizzle.

IR SPONSORSHIP Supporting the sound oices.

DICAPRIO: Dashing, sensitive, and e to 12-year-olds.

NDY For the way we really look. ►

TH FACE Does anyone actually go climbing in that stuff?

A FLEX PAGERS Stay in touch anyplace.

ORK Creating new favorites and ok for prime time television.

ERISM Make yourself useful. ►

RLS Rock 'n' roll packaged and l to children.

N DEW Water + sugar + more caffeine. It's an extreme thing.

CCARTHY Think Carol Burnett with titude. ►

▼ **VANS** No sports celebs allowed. And they're the coolest shoes on skateboards.

cable TV. The ads may be funny or disarmingly direct. What they do is suggest that the advertiser knows Gen Y better these savvy consumers know themselves. on a lot of other companies are going to have learn the es of Gen Y marketing. In just a few years, today's will be out of college and shopping for their first cars, first homes, and their first mutual funds. The distinctive g habits they display today will likely follow them as enter the high-spending years of young adulthood. Coms unable to click with Gen Y will lose out on a vast new et—and could find the doors thrown open to new comers. "Think of them as this quiet little group about to ge everything," says Edward Winter of The U30 Group, oxville (Tenn.) consulting firm. ke has found out the hard way that Gen Y is different. Al-



though still hugely popular among teens, the brand has lost its grip on the market in recent years, according to Teenage Research Unlimited, a Northbrook (Ill.) market researcher. Nike's slick national ad campaigns, with their emphasis on image and celebrity, helped build the brand among boomers, but they have backfired with Gen Y. "It doesn't matter to me that Michael Jordan has endorsed Nikes," says Ben Dukes, 13,

of LaGrange Park, Ill.

Missteps such as Nike's disastrous attempt to sponsor Olympic snowboarders two years ago and allegations of inhumane overseas labor practices added to Gen Y's scorn. As Nike is discovering, success with this generation requires a new kind of advertising as well as a new kind of product. The huge image-building campaigns that led to boomer crazes in everything from designer vodka to sport-utility vehicles are less effective with Gen Y. "The old-style advertising that works very well with boomers, ads that push a slogan and an image and a feeling, the younger consumer is not going to go for," says James R. Palczynski, retail analyst for Ladenburg Thalmann & Co. and author of *YouthQuake*, a study of youth consumer trends.

Instead, Gen Yers respond to humor, irony, and the (apparently) unvarnished truth. Sprite has scored with ads that parody celebrity endorsers and carry the tagline "Image is nothing. Obey your thirst." J.C. Penney & Co.'s hugely successful Arizona Jeans brand has a new campaign showing teens mocking ads that attempt to speak their language. The tagline? "Just show me the jeans."

NET EFFECT. Which isn't to say echo boomers aren't brand-conscious. Bombarded by ad messages since birth, how could they not be? But marketing experts say they form a less homogeneous market than their parents did. One factor is their racial and ethnic diversity. Another is the fracturing of media, with network TV having given way to a spectrum of cable channels and magazine goliaths such as *Sports Illustrated* and *Seventeen* now joined by dozens of niche competitors. Most important, though, is the rise of the Internet, which has sped up the fashion life cycle by letting kids everywhere find out about even the most obscure trends as they emerge. It is the Gen Y medium of choice, just as network TV was for boomers. "Television drives homogeneity," says Mary Slayton, global director for consumer insights for Nike. "The Internet drives diversity."

Nowhere is that Net-driven diversity more clear than in the music business. On the Web, fans of even the smallest groups can meet one another and exchange information, reviews, even sound clips. Vicki Starr, a partner in Girlie Action, a New York-based music promoter, last year booked No Doubt, a band with a teen following, into a small Manhattan venue. She says that on opening night the house was packed with teenage girls dressed just like the lead singer. "How do they know this? How do they keep up with what she's wearing? It's not from network television," says Starr. "It's online."

The Internet's power to reach young consumers has not been lost on marketers. These days, a well-designed Web



HABITAT FOR HUMANITY



decade are facing shrugs of indifference from these buyers



site is crucial for any company hoping to reach under-18 consumers. "I find out about things I want to buy from my friends or from information on the Internet," says Michael Eliason, 17, of Cherry Hill, N.J. Even popular teen TV shows, such as Warner Bros. Television Network's *Buffy the Vampire Slayer* and *Dawson's Creek*, have their own Web sites.

Other companies are keeping in touch by E-mail. American Airlines Inc. recently launched a college version of its popular NetSaver program, which offers discounted fares to subscribers by E-mail. "They all have E-mail addresses," says John R. Samuel, director of interactive marketing for American. "If a company can't communicate via E-mail," he says, "the attitude is 'What's wrong with you?'"

This torrent of high-speed information has made Gen Y fashions more varied and faster-changing. Young consumers have shown that they'll switch their loyalty in an instant to

marketers that can get ahead of the style curve. No brand has done a better job of

that than Tommy Hilfiger. When Hilfiger's distinctive logo-laden shirts and jackets starting showing up on urban rappers in the early '90s, the company started sending researchers into music clubs to see how this influential group wore the styles. It bolstered its traditional mass-media ads with unusual promotions, from giving free clothing to stars on VH1 and MTV to a recent deal with Miramax Film Corp., in which teen film actors will appear in Hilfiger ads. Knowing its customers' passion for computer games, it sponsored a Nintendo competition and installed Nintendo terminals in its stores. Gen Y consumers have rewarded that attentiveness by making Hilfiger jeans their No. 1 brand in a recent American Express Co. survey.

Compare that record with Levi's, one of the world's most recognized brands and an icon of boomer youth. It got a harsh wake-up call in 1997, when its market share slid, and research revealed that the brand was losing popularity among teens. With its core boomer customers hitting middle age,

Just as network TV has given way to cable, *Sports Illustrated* and *Seventeen* face an explosion of niche magazines

AT THE X-GAMES: The San Diego competition features skysurfing, skateboarding, and street luge

both Levi's advertising its decades-old five-pocket jeans were growing stale. "We all got older, and as a consequence, we lost touch with teenagers," says Tom Spangler, director of marketing research for the Levi's brand. Now, Levi's is fighting back with new ads, styles, a revamped Web site, and ongoing teen panel discussions to keep tabs on emerging trends. "We never put muscle into this sort of thing before, but now, we are serious about it," says Spangler. "This is a generation that must be reckoned with. They are going to overtake the country."

Marketers who bother to learn the interests and obsessions of Gen Y

are apt to run up against a brick wall of distrust and cynicism. Years of intense marketing efforts aimed directly at teenagers have taught this group to assume the worst about companies trying to coax them into buying something. Ads meant to be youthful and fun may come off as merely opportunistic to Gen Y consumer. That's what happened to PepsiCo in its attempts to earn Gen Y loyalty with its Generation Next campaign, says William Strauss, co-author of the 1991 book *Generations: The History of America's Future*. The TV ads, in which kids showed off branded trinkets, from jackets to bags, fell flat. "They were annoying," says Philip Powell of Houston. "It was just one long 'Please, please, buy me this!'"

Ironically, Pepsi already has one of the biggest teen hits with Mountain Dew, but the drink's success has li-

Cover Story

When the employees of Capital One had some things to say about their unusual working conditions, they went straight to the authorities.



The authorities, that is, who publish a survey in *Fortune*® magazine. The ones who travel the country every year and compile the 100 best companies to work for in

America. After talking to 27,000 employees nationwide — including many of ours — Capital One landed prominently at #41 on the list.

Were we honored? Who wouldn't be, alongside Intel, Starbucks, Nordstrom, Sun Microsystems and L.L. Bean. Actually, truth be known, we were ranked even higher than they were.

So what does it take to make this list, let alone the top half of it? A lot.

The survey considered pay, benefits, vacation, child-care and dress code. But they also measured things that only the people who work there can describe and quantify. Like trust in management. Pride in work. Job security. Openness of communication

between management and workers at all levels. And, not to be underestimated, how much fun people have at work. We scored high on all counts.

At Capital One, our associates (the

word we use instead of employees) come first. All full-time associates receive medical, vision and dental coverage starting the first day on the job. Not to mention, 10 paid holidays, 3 family care days and 3 weeks of vacation the very first year on the job.

We don't just help pay for child-care, we go out and find it for everyone who needs it. And of course, there is a great 401K plan and casual dress all week long. But the ways we respect our associates go beyond that.

People at Capital One are rewarded for performance, not for the position they happen to hold. Everyone is offered stock in the company.

And always at a 15% discount.

Everyone is eligible for cash incentives. Everyone is eligible for 100% tuition reimbursement when they continue their education.

So what about this concept of fun in the workplace? Capital One managers have a quarterly "fun budget" for every person they manage, to make sure work and play stay in balance.

Does all this really translate into a great place to work? Looking at the numbers, 93% of the people who work for Capital One are happy with their benefits. 90% voted this a fun place to work. And 95% say they are proud to work here.

Capital One is one of the leading credit card issuers in the country, and we continue to experience extraordinary growth. We now employ more than 10,000 people nationwide. If you're not one of us, maybe you should be. For more information on the many positions available, visit our website at www.capitalone.com.

Capital One

Capital One is an Equal Opportunity Employer committed to diversity in the workplace.
We promote a drug-free environment.

do with advertising. Instead, kids found out about Dew from their most trusted endorsers—each other. “[Kids] believe—true or not—that they’re the ones who figured out and spread the word that the drink has tons of caffeine,” says Marian Salzmann, head of the brand futures group at Young & Rubicam Inc. “The caffeine thing was not in any of Mountain Dew’s television ads. This drink is hot by word of mouth.”

Along with cynicism, Gen Y is marked by a distinctly practical world view, say marketing experts. Raised in dual-income and single-parent families, they’ve already been given considerable financial responsibility. Surveys show they are deeply involved in family purchases, be they groceries or a new car. One in nine high school students has a credit card co-signed by a parent, and many will take on extensive debt to finance college. Most expect to have careers and are already thinking about home ownership, according to a 1998 survey of college freshman for Northwestern Mutual Life Insurance Co. “This is a very pragmatic group. At 18 years old, they have five-year plans. They are already looking at how they will be balancing their work/family commitments,” says Deanna Tillisch, who directed the survey.

GRASSROOTS. That means marketers who want to reach worldly wise Gen Yers need to craft products and pitches

The biggest change is the Net. Fashion trends that used to spread slowly now hit everywhere instantly

AT THE KEYBOARD: “I find out about things I want to buy from my friends or...the Internet,” says Eliason, 17



Cover Story

MTV switched the emphasis on the weekly fashion show from celebrity lifestyles to practical information, with segments on decorating your bedroom and buying a prom dress. “We adapted the show to be more of what they wanted to see,” said Todd Cunningham, director of brand research for MTV.

To break through Gen Y’s distrust, marketers are also trying to make their campaigns more subtle and more local. A growing number, including Universal Studios, Coca-Cola, and McDonald’s, use “street teams.” Made up of young people, the teams hang out in clubs, parks, and malls talking to teens about everything from fashion to finance, trying to pinpoint trends as they emerge. Other marketers are trying to build grassroots support for their brands. Following the lead of underground rock bands, mass marketers have taken to “wild postings,” that is, tacking up ad posters on street corners and construction sites. Others sponsor community events or hand out coupons and T-shirts at concerts and ball games. Golden Books Publishing Co. distributed sample chapters from a new teen book series at movie theaters. The idea is to let kids stumble onto the brand in unexpected places.

Last year, when Lee Apparel introduced Pipes, a line of oversize, multipocketed

that are more realistic. To rejuvenate its Gen X hit *House of Style*, for example,

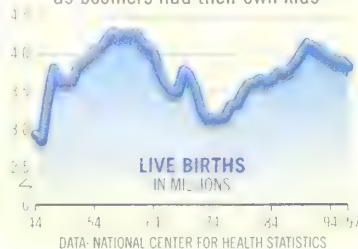
pants aimed at 10- to 14-year-old boys, it spent its marketing dollars on the Internet, outdoor posters, and skateboard magazines. “As a brand, you need to go where they are, not pick a fashion statement, put it on TV, and wait for them to come to you,” says Terry Lay, president of the Lee brand. Even Coke, a master of slick advertising, looks for more personal ways to reach Gen Y. Last summer, it courted them with discount cards good for movies and fast food. To build credibility, it mailed them directly to high school sports teams and other leaders first before handing out more at stores.

Of course, plenty of marketers continue to reach for Gen Y with national TV campaigns. The ones that work are funny, unpretentious, and often confusing to older consumers. Consider Volkswagen of America Inc. Although VW did not market directly to teens, both its Golf and Passat models show up on surveys as Gen Y faves. Part of the credit goes to the carmaker’s quirky TV commercials, which are as far from the traditional image-building ads Detroit churns out as possible. “We’re a little edgier, a little more risk-tolerant and not so mainstream,” says VW marketing director Vanzura. While other marketers fled the airwaves, Ellen DeGeneres came out of the closet on her show last spring, VW used the groundbreaking episode to introduce a commercial showing two guys in a car who pick up a carded chair. The ad, funny and oblique, became a favorite among young adults and teens.

With the oldest Gen Yers turning 20 this year, and other companies will soon find themselves grappling with this new generation. Toyota Motor Corp. is noting that 4 million new drivers will be of age each year until 2010, unveiled the Echo at this year’s Detroit auto show. With low emissions and a price well below the Corolla, the new subcompact is squarely at boomers’ kids who are buying their first cars. General Motors Corp. is putting together a task force to figure out how to appeal to Gen Y. The auto giant brings teens and children as young as sixth-graders into car clinics, where researchers probe their opinions of car models and prototypes of future vehicles. Michael C. DiGiovanni, GM’s head of

THE SECOND BOOMING

The number of new babies surged with the baby boom, and then again as boomers had their own kids





R. W. Wilkins, Technica

A six-day investment this April can pay dividends for years to come.

In today's global economy the success of an industrial enterprise often depends on how rapidly it adapts to change. A showcase for more than 7,500 exhibitors from 70 countries, the HANNOVER FAIR delivers the latest solutions and innovations.

HANNOVER FAIR '99 Exhibition Program

- Factory Automation
- Power Transmission and Control
- Factory Equipment, Tools, Compressed Air Technology
- Subcontracting and Industrial Materials
- Rail Transport Technology
- Research and Technology

HANNOVER FAIR Online

■ www.hannovermesse.de
■ www.hfusa.com

Exhibitor and Visitor Services - Special
Presentations - Supporting Events
Travel and Accommodations - Tickets
Cultural Events - Press Service

 Deutsche Messe AG
Hannover, Germany

Call today for ticket and travel information!

Hannover Fairs USA, Inc., • 103 Carnegie Center • Princeton, NJ 08540

Tel.: (609) 987-1202 • Fax: (609) 987-0092 • E-mail: hannoverfair@hfusa.com



HANNOVER MESSE

APRIL 19 - 24, 1999

ket research and forecasting, says Gen Y kids have an entirely different aesthetic from their parents. Their sense of how a product should look and feel has been shaped by the hours they spend at the keyboard. "One of the trends that will manifest itself is computers," says DiGiovanni.

Cover Story

Meanwhile, computers and other high-tech products are starting to look less industrial and more sleek in an effort to attract younger buyers. By using bright colors and cool designs, Motorola Inc. helped transform the pager from a lowly tool for on-call workers to a must-have gizmo for teens. Apple Computer Inc. appeals directly to the same group with products such as its rounded, space-age-looking iMac com-

puter. "For this generation, the computer is like a hot rock," says Allen Olivo, Apple's senior director for worldwide marketing, who says kids are constantly comparing features and styling with their friends' systems.

Apple's stylish iMac may or may not become the computer of choice for this new generation. But Apple and other marketers that attempt to chart the Gen Y psyche now could have an advantage as this generation moves into adulthood. After all, some of the biggest brands on the market today started their start by bonding with boomers early and following them from youth into middle age. Will the labels that grew with baby boomers reinvent themselves for Generation Y? Will the big brands of the new millennium bear names most of us have not yet heard of?

By Ellen Neuborne in New York, with Kathleen Kerwin in Detroit and bureau reports

'WE ARE GOING TO OWN THIS GENERATION'

The morning after the Delia's catalog arrives, the halls of Paxton High School in Jacksonville, Fla., are buzzing. That's when all the girls bring in their copies from home and compare notes. "Everyone loves Delia's," says Emily Garfinkle, 15. "It's the big excitement."

If you've never heard of Delia's, chances are you don't know a girl between 12 and 17. The five-year-old direct mailer has become one of the hottest names in Gen Y retailing by selling downtown fashion to girls everywhere. Already, the New York cataloger, which racked up sales of \$98 million over the past three quarters, has a database of 4 million names, and its fastest growth may still lie ahead: Gen Y's teen population won't peak for five or six years.

TIGHT FOCUS. A lot of thriving Gen Y companies fell into the market by accident. Not Delia's. Founders Stephen Kahn, a 33-year-old ex-Wall Streeter, and Christopher Edgar, his ex-roommate at Yale University, realized that few retailers had taken the trouble to learn this market. So they carefully honed the Delia's concept: cutting-edge styles and mail-order distribution with a Gen Y twist.

Delia's trendy apparel is definitely not designed with mom and dad in mind. "I think the clothes are too revealing," says Emily's mother, Judy. "I tell her I'll buy her anything she wants at the Gap." But Emily dismisses the Gap as "too preppy," pre-

ferring Delia's long, straight skirts and tops with bra-exposing spaghetti straps. Delia's order form even includes tips on how to order pants so they conform to the parentally despised fashion of drooping well below the hips, with hems dragging. In keeping with Gen Y preferences, the catalog illustrates these fashions with models who look like regular teenagers, not superglam androgynes.



Delia's youthful image isn't just a facade. Most of the company's 1,500 employees are well under 30. And its phone reps—mostly high school and college students—do more than take orders: They offer tips and fashion advice. "Delia's speaks the language of its consumers," says Wendy Liebmann, president of consultant WSL Marketing.

Instead of mass-market advertising, Delia's gets the word out in the

ways Gen Y prefers: with local campaigns such as catalog drops in schools and with hot Web sites. In 1997, the company bought GURL.com, a popular fashion, chat, and game site for girls. It also launched its own Web site, with news and entertainment stories, catalog-request forms, E-mail, and online shopping. That effort helped buy some buzz for Delia's stock, which has gyrated between \$

KAHN: The Delia's catalog offers tips on how to order pants so they droop well below the hips

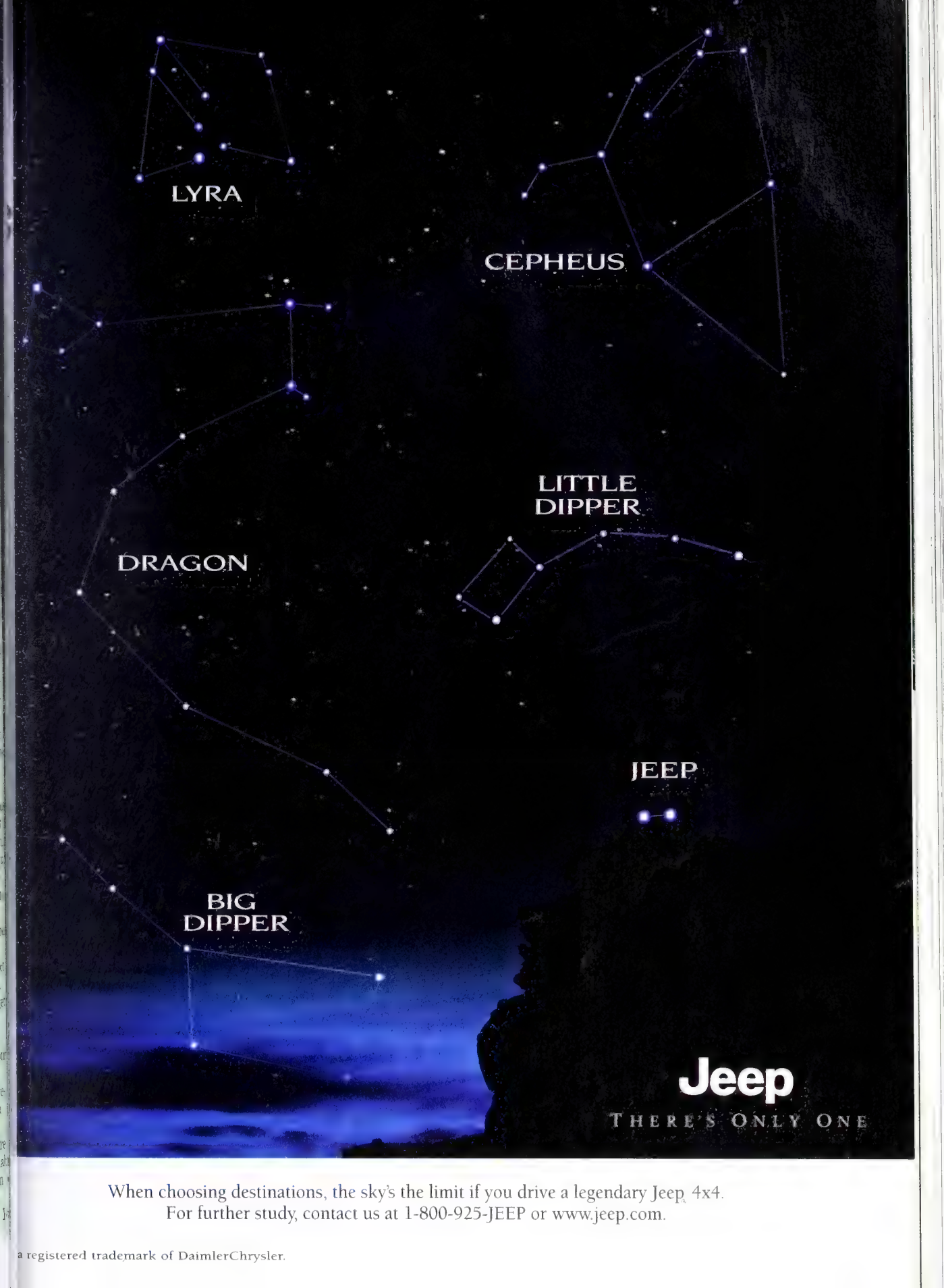
and \$32 a share over the past year. In December, buoyed by news of an online shopping venture, the stock shot up more than 50%, to a recent 15.

So far, the company has sold mostly clothing, but has recently branched out into home furnishings, such as bean bag chairs and throw rugs. "Girls like to do their rooms," says Kahn, who defines his business by its customers rather than by a product category. He foresees a day when Delia's will ge-

these girls their first credit card, first car loan, and first mortgage. "We'll follow them and broaden our offerings," says Kahn.

Next up: boys. The company recently bought TSI Soccer Corp., a sportswear catalog and launched Droog, a catalog for boys. "We are going to own this generation," Kahn says. Or at least a sizable portion of its members' wallets.

By Ellen Neuborne in New York



LYRA

CEPHEUS

LITTLE
DIPPER

DRAGON

JEEP

BIG
DIPPER

Jeep

THERE'S ONLY ONE

When choosing destinations, the sky's the limit if you drive a legendary Jeep 4x4.
For further study, contact us at 1-800-925-JEEP or www.jeep.com.

a registered trademark of DaimlerChrysler.

TAKING THE VALLEY BY STORM

Benchmark aims to out-venture Kleiner Perkins

Atop the desk of venture capitalist Robert C. Kagle sits a miniature plastic computer cracked in half. A cheap wooden plaque above it bears the inscription: The Broken Computer Award—Profits So Huge that they Broke the Computer. At first blush, you might dismiss the dubious honor bestowed on Kagle by colleagues at his Silicon Valley venture firm as little more than a gag.

No gag. In 1997, Kagle's firm, Benchmark Capital, bought 22% of Internet-auction highflier eBay Inc. for \$5 million. Today, that stake is worth about \$2.5 billion, a—gulp—49,900% return was too big for the firm's computer system to swallow. "Our computer only allows gains of up to \$100 million," explains the 42-year-old Kagle, who, along with each of his four partners, can personally lay claim to some \$120 million of the eBay gain. "We aim high."

Indeed, as it stands now, the firm's stake in eBay looks to be the best-performing venture investment of all time—better than Microsoft, Cisco Systems, or Compaq Computer. Not bad for a group of guys who in just four years have taken the clubby, elite world of venture capital by storm. "eBay really put them on the map," says rival venture capitalist C. Richard Kramlich of New Enterprise Associates. Adds Alfred Giuffrida, a managing director at Horsley Bridge Partners Inc., an institution with investments in 30 venture-capital firms, including Benchmark: "They've had an immediate impact in Silicon Valley and are already among the very top tier of groups."

This team of five alpha males, with an average age of 38 and an average height

of 6 ft. 3 in., may not have the cachet of powerhouse Kleiner Perkins Caufield & Byers or the muscle of its superstar, L. John Doerr. But they plan to get them. Indeed, the firm's name screams it. "We want to set a new benchmark," says partner Andrew S. Rachleff. Predicts Keith J. Krach, CEO of Benchmark-backed Ariba Technologies: "They're going to be ruling Silicon Valley."

But first, Benchmark will have to prove that it's more than just a one-trick pony. Some Valley insiders sug-

gest Benchmark's bravado may be premature, given its members' relative youth and brief track record. Benchmark has yet to return one dime to investors, since gains are still merely paper profits. And landing the hottest deals is increasingly difficult as competition stiffens. "You're only as good as

BENCHMARK BETS

eBAY Probably the best venture-capital investment of all time. Benchmark's \$5 million stake is today worth more than \$2.5 billion.

GENESYS TELECOMMUNICATIONS LABORATORIES Communications-software maker has returned more than \$70 million to the firm.

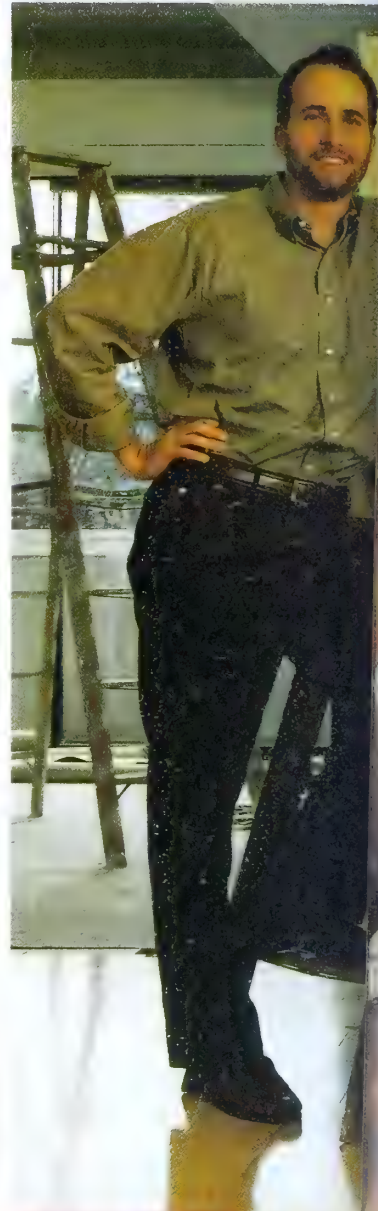
HANDSPRING Looks to become a giant in the exploding portable-computing market.

DATA: BUSINESS WEEK

your last fiasco," warns Doerr.

Not surprisingly, then, Benchmark has been in overdrive. Since opening its doors in 1995, it has invested nearly \$250 million raised from institutions and marquee individuals like Bill Gates, Michael Dell, and Craig McCaw. The result is a portfolio chock-full of promising startups—from E-business consultant Scient Corp. to online mortgage broker E-LOAN Inc. to high-speed Internet-access provider NorthPoint Communications Inc.

BUZZMEISTERS. Of 52 investments—many focused on the explosive opportunities in E-commerce and the Internet—just two have turned out to be dogs. On paper, 11 would already return an average of almost \$19 million. Then there's eBay. Says fund investor and Sun Microsystems Inc. CEO Scott G. McNealy: "They've done very well by me. Every time I see [Kagle], I



GIANT KILLERS
Just a bunch of alpha males

DATA: BUSINESS WEEK

KEVIN
The Tech
Benchm
resident
is also a
winemak

start coughing 'Distribute, distrib

So what makes this chest-thumping upstart the talk of Silicon Valley? what makes it believe it will outshine the likes of Kleiner Perkins? A 27-year-old firm with a track record that includes home runs like Sun Microsystems, Netscape Communications, and Amazon.com? Rivals, investors, and other execs suggest Benchmark has mastered the venture capital game: recruiting top management, forming strategic relationships, creating important market buzz.

More important, as the partn



CHLEFF

Monster.
es
busi-
-almost
ookies.

DAVID BEIRNE

The Powerbroker.
A former head-
hunter for technolo-
gy's elite, Beirne has
top connections.

BRUCE DUNLEVIE

The Wordsmith.
Low-key Dunlevie's
nose for promising
startups is as keen
as his vocabulary.

ROBERT KAGLE

The Marketing Wizard. Knows all
about reaching con-
sumers. Kagle also
writes jingles.

their unique teamwork, an un-
g devotion to entrepreneurship,
guine boyish camaraderie. Not a
es by without footballs getting
around Benchmark's posh new
on Sand Hill Road, venture cap-
tivalent of Park Avenue. Partner
s are more about fishing, bird
g, or playing Hearts than about
ing serious strategic issues.
as their ability to function as a
nat attracted Louis H. Borders,
year-old founder of bookseller
y Group. Once he avidly opposed
venture money, believing that

VCS were too meddling. But Borders,
now at work on a yet-to-be-launched
online superstore, has changed his tune.
He says all five partners at Benchmark
have been vital to decisions affecting
everything from product offerings to
hiring. At other firms, he says, only one
partner generally interacts with man-
agement. "Benchmark has been more
supportive as a company," says Borders.
"They'll do anything I ask of them."

That includes shuttling job candidates
around the Valley or playing door-to-
door salesman. Partner David M. Beirne
got E*TRADE Group to chuck a deal it

was on the verge of sealing to outsource
its E-mail operations. Over dinner, Beirne
talked CEO Christos M. Cotsakos into
trying out Critical Path Inc., an upstart
backed by Benchmark instead. "We bet
our company on a whole new infrastruc-
ture with Critical Path," recalls Cotsakos.
"There are very few people who could
have convinced me to do this."

That kind of help is priceless. But
entrepreneurs worry that some venture
capitalists can take their roles too far.
One company founder says he opted to
take money from Benchmark instead of
Kleiner for fear it would take over his
outfit. "My hunch on Benchmark was
that it would be much more constructive
and cooperative in helping us build the
company," this entrepreneur says. "The
rap on Kleiner is that they pretty much
do what they want to do."

"KILLER IDEA." Doerr bristles at the idea
that his firm is too heavyhanded, saying
Kleiner's dominance makes it an easy
target. "We're an active, not passive, in-
vestor," says Doerr. "But I haven't heard
complaints that we're too hands-on."

Even more distinctive is Benchmark's
structure. "We wanted to architect the
firm differently," says Bruce Dunlevie.
Unlike most venture capitalists, Bench-
mark partners share equally in profits
and failings regardless of who brings in
or works on a deal. Many Silicon Val-
leyites say that all but eliminates internal
politics and infighting between partners
for hot deals and talent. Even the sup-
port staff shares in the goodies. "This is
the new killer idea," says Novell Inc.
CEO Eric E. Schmidt. Adds 34-year-old
Kevin R. Harvey: "At a lot of other ven-
ture firms, everybody is jockeying for
position." Although Benchmark says oth-
erwise, it is not the first firm going this
route. Such old-timers as Sequoia Capital,
for example, also say they give partners
equal slices of their venture pies.

Not everyone is convinced that such
a structure is sustainable, particularly
for a small newcomer like Benchmark
that hopes to grow. With just five part-
ners and a relatively small \$125 million
fund—Kleiner's latest fund raised \$398
million—Benchmark could run into trou-
ble as it expands. "It will be interesting
to see over the next 10 years how they
scale the business without having a hi-
erarchy," says Jeffrey D. Brody, a part-
ner at rival Brentwood Venture Capital.

Benchmark is indeed currently in the
hunt for a sixth full-time team member.
Last year, former Federal Communica-
tions Commissioner Reed Hundt joined
as a part-time affiliate. But Benchmark
says it needs more firepower—particu-
larly if it wants to continue to break
records, not to mention computers.

*By Linda Himmelstein in
Menlo Park, Calif.*

BY GENE G. MARCIAL

GUCCI: WILL THE OTHER SHOE DROP?

Although Bernard Arnault, chairman of LVMH Moët Hennessy Louis Vuitton, insists he isn't out to acquire Italy's Gucci Group (GUC), no one on Wall Street quite believes him. After all, in the past month he has upped LVMH's stake in Gucci from 9% to 34.4%. That has fueled a runup in Gucci's stock, which shot from 48 on Dec.



DE SOLE: Meeting potential saviors?

31 to a high of 74% on Jan. 8. It has since eased to 69. "This is a coup in the making—a move to pull a creeping takeover," says one Gucci insider. He thinks Arnault will push to raise LVMH's stake to a controlling 51%.

That may not happen if a white knight emerges to make a friendly bid for Gucci, as some pros expect. One of these investors says Gucci Chairman Domenico de Sole has been meeting privately with potential saviors. Among those interested, says this pro, are two upscale U.S. retailers and one London conglomerate.

De Sole declined to say anything about the possibility that another buyer might get into the picture. "While it would be inappropriate for me to comment directly [on such speculation], I am completely aware of my responsibilities to uphold the interests of all shareholders," de Sole told BUSINESS WEEK. "We'll continue to run the company independently in a way that maximizes long-term growth and value for shareholders."

"It seems clear that de Sole is open to the idea of a rescue offer from a suitor of his own choosing to avert an unwelcome LVMH takeover," says one New York investment manager. This investor, who has accumulated Gucci shares, notes that de Sole is "definitely averse" to working for Arnault and is looking for an alternative.

Analyst Dana Eisman Cohen of Donaldson, Lufkin & Jenrette Securities

is among those who think LVMH is serious about acquiring Gucci. She notes that two possible snags for LVMH are de Sole and Gucci designer Tom Ford. If either one should oppose LVMH's offer and leave the company, a "critical piece of the value of Gucci would have dissolved," she argues.

For Gucci shareholders, she adds, the situation is a "win-win": Given Gucci's improved business, there's room for the stock to climb higher, based on fundamentals alone, says Cohen. And in a takeover, she adds, LVMH could pay at least 100 a share.

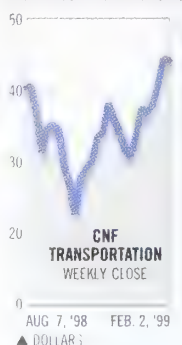
HEAVIER LOADS FOR ONE P.O. TRUCKER

The Post Office—not the higher-priced Federal Express or UPS—could end up handling the bulk of the growing business of shipping out packages to those throngs of Internet shoppers. So argues Edward Wolfe, an analyst at BT Alex. Brown, who thinks this U.S. Postal Service (USPS) link with E-commerce is still unrecognized. How to play it? Through CNF Transportation (CNF), a diversified trucking and air-freight holding company that operates 10 of the USPS' Priority Mail Postal Centers.

Because of the low price of shipping with USPS' Priority Mail service, it stands to benefit most from delivering Internet purchases, according to Wolfe. Clearly, he adds, CNF, which holds the contract for Priority Mail, "has the closest ties to E-commerce."

For example, the Priority Mail Processing Center in Swedesboro, N.J., handles some 70,000 packages a day shipped out by Amazon.com and home-shopping service QVC, notes CNF spokesman Jim Allen. Wolfe expects CNF to get contracts soon for five additional USPS centers. He expects the new ones—possibly in Atlanta, Chicago, Dallas, and Los Angeles—will add \$500 million to \$550 million to CNF's revenues by 2000, and will up per-share earnings by 15¢ or 20¢. CNF stock,

WILL NET HOPES DRIVE IT HIGHER?



DATA: BLOOMBERG FINANCIAL MARKETS

which zoomed from 22 in early October to 43% on Feb. 2, doesn't yet reflect such projections, says Wolfe.

THIS DISKMAKER IS REALLY SPINNING

In mid-October, Image Entertainment (DISK) was languishing at 3 a share. But by early December, the stock had doubled to 6. It doubled again a month later. What's behind the surge? Image, the largest distributor of laser disks, has become the top independent licensee and marketer of digital videodisks (DVDs). What's more, the company is now a major source of DVDs for some Net retailers.

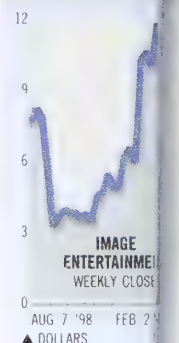
"The company is poised to become a major player in DVDs and online retailing," says analyst Steven Hart of Commonwealth Associates, a New York investment firm, who rates the stock a "strong buy." It has the potential, he adds, of boosting revenue by more than 40% a year.

One relationship in the making, says a hedge fund manager who has been buying shares, is with Amazon.com. It's likely, says this pro, that Image will become a major DVD supplier to Amazon.com. Image is also talking with other Internet retailers of books and videotapes.

Image CEO Martin Greenwald expects there will be a big switch to DVDs by VCR buyers because of DVDs' superior audio and video quality. One other big plus: DVDs can also be played on personal computers through DVD-ROM drives, he adds.

Hart says Image's stock, which has eased to 10, has more upside potential driven by revenue and earnings growth. He sees sales of \$69 million for the year ending Mar. 31, 1999, and \$97 million in fiscal 2000. And he sees earnings of 7¢ a share in 1999 and 35¢ in 2000.

REFLECTING DVD'S ROSY FUTURE



DATA: BLOOMBERG FINANCIAL MARKETS

BusinessWeek ONLINE

For more coverage of the market, visit our Web site at businessweek.com

The Power to Manage. Anything. Anywhere.

Tivoli



After designed cars and trucks by Ford. A better way to deploy software by Tivoli.

When you set out to build the best performing, safest and most environmentally friendly cars and trucks in the world, it's best not to keep the world (or your designers) waiting. Ford needed a faster way to standardize software across all of their design centers, worldwide.

Their solution: IT management software from Tivoli Systems Inc., an IBM company. Using Tivoli Enterprise, Ford is able to synchronize the release of CAD/CAM software, automatically, to its global fleet of 10,000 UNIX®

workstations – all from a central location. Now, instead of spending their time downloading the latest software updates, Ford engineers and designers around the world use identical versions of software to collaborate on new car and truck designs – saving Ford both time and money.

It's one way Tivoli is helping Ford shape the next generation of automobiles. To find out how Tivoli can help speed your designs to market, go to www.tivoli.com or call 1 888 TIVOLI-1.

Tivoli is a registered trademark, Tivoli Enterprise is a trademark, and The Power to Manage. Anything. Anywhere. is a service mark, of Tivoli Systems Inc. in the United States and/or other countries. In Denmark, Tivoli is a trademark licensed from Kjøbenhavns Sommer - Tivoli A/S. Tivoli Systems Inc. is an IBM company. IBM is a trademark of International Business Machines Corporation in the U.S. and/or other countries. UNIX is a registered trademark in the United States and/or other countries licensed exclusively through X/Open Company Limited. Other company, product, and service names may be the trademarks or service marks of others. ©1998 Tivoli Systems Inc.

A BARGAIN HUNTER'S GUIDE TO CLOSED-END FUNDS

Our newest Scoreboard spots portfolios trading at a discount

If it were a conventional mutual fund, Korean Investment Fund would have been one of 1998's top performers: Its net asset value (NAV) soared 85.3%. But anyone who owned this closed-end fund would have been disappointed. Closed-ends trade like stocks, and last year, shares in this fund rose just 11.8%.

Unlike mutual funds, where investors always buy and sell at the net asset value of the fund's holdings, closed-end funds trade on the stock exchanges, where investment sentiment and portfolio behavior sometimes part ways. A year ago, Korean Investment traded at a 33% premium over its NAV even though the portfolio had been decimated by the Asian crisis. As Korean Investment's NAV recovered in 1998, the share prices moved little, so the premium disappeared and actually turned into a discount, which is now 10.7%.

SITE SELECTIONS. But that's where the opportunity lies. Closed-end funds can be bargains, giving investors a shot at buying a portfolio at a discount to its underlying value. That's why we're bringing you the closed-end fund version of the BUSINESS WEEK Mutual Fund Scoreboard.

Our survey measures performance by net asset value and market price. We also grade these funds from "A" to "F" based on three-year NAV returns, adjusted for risk. Nine equity and 25 bond funds earned A's (table). Starting on page 96, we carry data for 120 equity funds and 70 bond funds. At www.businessweek.com, you will find those in addition to 264 more bond funds.

Overshadowed by mutual funds, some closed-ends are trying to improve their visibility. About 20% now report NAVs daily through various—but not all—stock-quote services. To get an NAV, bracket the fund's ticker symbol with

X's. So while EFI will get you a market price for the Europe Fund, XEFIX gets yesterday's NAV. Closed-ends usually report NAVs only on Fridays.

Why bother with closed-ends when there are so many mutual funds? Look at A-rated Hancock Bank & Thrift Opportunity Fund, which trades at a 13% discount. Gregg Wolper, closed-end analyst at Morningstar Inc., says the fund is a clone of Hancock Regional Bank

would those of regular bond funds.

Closed-end expert Thomas J. Herzfeld says municipal bond funds are particularly attractive, because many closed-end funds have been launched in the past month, driving down the price of existing funds. The result, he says, "is that many muni funds have higher yields than Treasuries." Herzfeld, with Miami-based Thomas J. Herzfeld Advisors Inc. manages the portfolio of closed-ends, says the best time to buy them is near the end of the month when they tend to sell off. Herzfeld says prices usually rally in the days of the next month.

DOUBLE-EDGED. If you buy these funds at a discount, you'd better be prepared to own them at a discount as well. NAV return, top-rated General American Investors beat the Standard & Poor's

500-stock index over the past 1, 3, and 10 years. But the fund was not traded at or above NAV since early 1993. Closed-end funds, often under pressure from shareholders, take steps to narrow or eliminate the discount, the most extreme being converting to open-end format. On Jan. 1, the directors of Scott & Co. New Europe proposed that. Despite a 34.9% return last year, the fund was traded at discounts between 13.7% and 27.3%.

Funds can change strategy in other ways. A shareholder recently won control of top-rated Preferred Income Management, which invests mainly in preferred stocks, and plans to invest instead for long-term capital gains. That's why analyst Kevin McNally of Morningstar Smith Barney decided to put the fund on their "avoid" list. He expected

dividend to be severely cut or eliminated, leading yield-conscious shareholders to dump the fund's shares.

As with any investment, tracking is only a starting point. But you can make a smart investment without the first step, which begins with the Scoreboard on page 96.

By Jeffrey M. Laderer
in New York

The Best of the Bunch

These closed-end funds earned A's for risk-adjusted total return*

EQUITY FUNDS

GENERAL AMERICAN INVESTORS
HANCOCK BANK AND THRIFT OPPORT.
HANCOCK PATRIOT GLOBAL DVD.
HANCOCK PATRIOT PREF. DVD.
HANCOCK PATRIOT PREMIUM DVD. I
NATIONS BALANCED TARGET MAT.
SALOMON BROTHERS FUND
SCUDDER NEW EUROPE
SPAIN FUND

BOND FUNDS

AMERICAN SELECT
AMERICAN STRATEGIC
AMERICAN STRATEGIC II
APEX MUNICIPAL
COLONIAL MUNICIPAL INCOME
DREYFUS CALIF. MUNICIPAL INCOME
ELLSWORTH CONVERTIBLES G & I

BOND FUNDS

KEMPER STRATEGIC MUNICIPAL INC.
MSDW MUNI. INC. OPPORT.
MSDW MUNI. INC. OPPORT. II
MSDW MUNI. INC. OPPORT. III
MORGAN STANLEY HIGH-YIELD
MUNIASSETS
MUNICIPAL HIGH-INCOME
NATIONS GOVT. INCOME 2003
NATIONS GOVT. INCOME 2004
NUVEEN CALIF. MUNICIPAL VALUE
NUVEEN MUNICIPAL INCOME
PREFERRED INCOME
PREFERRED INCOME MANAGEMENT
PREFERRED INCOME OPPORTUNITY
PUTNAM DIVIDEND INCOME
PUTNAM HIGH-YIELD MUNICIPAL
PUTNAM TAX-FREE HEALTH CARE
STRATEGIC GLOBAL INCOME

*1996-98, pretax return, NAV appreciation plus reinvestment of dividends and capital gains

DATA: MORNINGSTAR INC.

Fund B, which of course sells at NAV—and has a 2% expense ratio. The closed-end fund's expenses are 1.45%. Wolper says others with look-alike mutual funds include Gabelli Equity, Invesco Global Health Sciences, Royce Value, and just about all the municipal-bond funds.

Many closed-end bond funds, both taxable and tax-exempt, have higher yields than their conventional bond-fund brethren. That's because they can borrow to buy a larger portfolio than their assets would otherwise support. That's not risk-free—a jump in rates would hurt the NAVs of leveraged funds more than it

BusinessWeek **ONLINE**

The following tables highlight 190 funds. These, plus 264 more, can be found at www.businessweek.com.

WE'VE SPENT 15 YEARS OBSESSING ABOUT COLOR PRINTERS AND ALL WE THINK ABOUT IS HOW TO GET LOADED.



LOADS FAST, PRINTS EVEN FASTER.



Take it from us, we know what should go into a printer. Our ColorStix® ink is a good example. Since each color has a unique shape, loading the Tektronix Phaser® 840 printer is as easy as loading a stapler. And just as quick. In fact, everything's quick. Print speed is twice as fast as a typical color laser. So easy in, easy out could be this printer's motto. But that's exactly the kind of thinking we put into all our printers. So you can think about more important things. Like how to celebrate seeing color at work. Take a load off your mind by calling 1-877-362-6567 ext. 1578. The call is free and so is all the black ink you will ever need. You can learn more at www.coloratwork.com

MUTUAL FUND SCOREBOARD

Closed-End Equity Funds

FUND	RATING	CATEGORY	RISK	SIZE	FEES	PERFORMANCE				YIELD %	HISTORY	PREMIUM DISCO	
				ASSETS \$ MIL.	EXPENSE RATIO %	NAV	RET 1 YR	RET 3 YRS	RET 5 YRS			1998 HIGH	LOW
AIM EASTERN EUROPE	C-	Europe	High	47.1	1.88	-45.5	-6.3	-51.5	-8.2	0.0	100	-6.1	-34.5
ALLIANCE ALL-MARKET ADVANTAGE	B+	Large-cap Growth	Average	94.9	2.43	54.6	39.9	61.5	44.6	1.8	100	15.4	-7.0
ARGENTINA	C	Latin America	Average	126.5	NA	-19.5	4.4	-27.3	-4.9	5.0	100	-16.5	-30.0
ASA LIMITED	D	Precious Metals	High	151.1	0.71	-21.6	-21.7	-21.0	-22.2	5.1	100	20.7	-1.8
ASIA PACIFIC	D	Pacific ex-Japan	High	153.9	1.57	-4.4	-14.5	-8.7	-19.2	0.6	100	7.6	-27.6
ASIA TIGERS	C-	Pacific ex-Japan	High	163.3	1.60	-11.1	-13.5	-12.4	-16.0	0.2	100	3.5	-27.9
AUSTRIA	C	Europe	Average	127.9	1.71	16.8	12.9	18.1	15.7	3.2	100	-8.6	-22.1
AVALON CAPITAL	B	Large-cap Growth	Low	11.4	NA	16.8	21.4	20.6	NA	0.0	100	33.7	-41.6
BAKER FENTRESS	B	Large-cap Value	Very Low	771.3	0.74	11.9	14.2	3.6	14.4	2.8	100	-12.4	-21.4
BERGSTROM CAPITAL	B	Large-cap Growth	Low	183.2	NA	38.4	24.5	28.6	24.6	0.2	100	-6.6	-15.2
BLUE CHIP VALUE	B	Large-cap Value	Low	171.5	0.94	17.4	23.1	1.4	25.7	0.5	100	12.9	-5.5
BRAZIL	C-	Latin America	Average	333.7	1.46	-28.0	3.6	-34.0	-7.4	5.7	100	-17.3	-34.4
BRAZILIAN EQUITY	D	Latin America	High	33.0	NA	-50.1	-8.4	-53.4	-19.3	3.3	100	-12.8	-32.8
CENTRAL EUROPEAN EQUITY	C	Europe	Average	183.1	1.10	-25.2	6.6	-26.4	7.1	1.1	100	-12.9	-29.7
CENTRAL EUROPEAN VALUE	C	Europe	Average	75.7	2.00	-5.8	5.9	-5.7	-2.9	3.0	100	-14.4	-33.6
CENTRAL FUND OF CANADA	C	Precious Metals	Average	72.2	NA	-10.0	-6.9	-11.1	-8.4	0.3	100	7.7	-9.7
CENTRAL SECURITIES	B	Mid-cap Value	Low	467.5	0.53	15.2	22.3	-10.5	14.3	3.7	100	10.4	-19.9
CHILE	C-	Latin America	High	180.4	3.34	-24.5	-7.9	-33.8	-16.9	2.8	100	-15.3	-29.9
CHINA	D	Pacific ex-Japan	High	108.7	2.15	-27.8	-3.3	-32.0	-9.2	1.0	100	-1.7	-34.9
CLEMENTE GLOBAL GROWTH	C	World	Average	78.8	NA	26.3	18.7	36.4	23.4	0.6	100	-7.8	-18.1
COHEN & STEERS REALTY INCOME	B	Real Estate	Low	22.2	NA	-15.7	11.6	-16.5	10.5	6.7	100	19.9	-2.9
COHEN & STEERS TOTAL RETURN REALTY	B	Real Estate	Low	91.4	NA	-12.7	12.5	-10.6	14.1	8.0	100	11.7	-8.2
DELAWARE DIVIDEND & INCOME	B+	Dom. Hybrid	Very Low	233.5	0.82	-4.2	14.8	7.8	21.6	6.5	100	19.9	-5.7
DELAWARE GLOBAL DIVIDEND & INCOME	B	Dom. Hybrid	Very Low	104.9	NA	1.3	13.9	-7.5	15.2	7.7	100	10.1	-9.1
DUFF & PHELPS UTILS. INCOME	B	Utilities	Low	2131.7	1.13	12.9	14.3	19.5	16.8	6.9	100	13.5	-0.8
EMERGING GERMANY	B	Europe	Average	212.5	NA	38.5	26.5	43.9	33.3	9.0	100	-5.4	-18.0
EMERGING MARKETS INFRASTRUCTURE	C	Div. Emg. Mkts.	Average	154.4	2.02	-30.9	-4.5	-35.3	-9.6	0.0	100	-14.5	-30.5
EMERGING MARKETS TELECOM.	C	Div. Emg. Mkts.	Average	94.3	1.90	-16.7	3.0	-18.5	0.1	0.0	100	-11.7	-28.1
EMERGING MEXICO	D	Latin America	High	67.4	1.64	-52.0	-2.1	-45.3	-1.4	0.0	100	-6.9	-28.3
ENGEX	D	Small-cap Growth	High	10.3	2.17	-21.5	-15.9	-23.6	-14.1	0.0	100	-2.3	-28.5
EQUUS II	C	Dom. Hybrid	Average	113.4	3.98	-18.7	12.3	-26.7	12.8	0.0	100	-7.4	-33.3
EUROPEAN WARRANT	B+	Europe	Average	223.2	1.65	29.8	49.6	42.5	55.2	0.0	100	-1.8	-24.8
FIDELITY ADVISOR EMERGING ASIA	C-	Pacific ex-Japan	Average	72.5	1.71	-1.6	-7.7	2.8	-8.6	0.0	100	-3.7	-19.8
FIDELITY ADVISOR KOREA	F	Pacific ex-Japan	Very High	42.7	1.88	145.2	-15.0	49.2	-16.8	0.0	100	47.8	-19.0
FIRST AUSTRALIA	C	Pacific ex-Japan	Average	151.6	1.39	5.7	1.6	2.5	-0.6	3.2	100	-12.9	-28.9
FIRST FINANCIAL	C	Financial	Average	177.5	1.04	-33.4	9.6	-42.1	9.2	0.4	100	19.5	-6.9
FIRST ISRAEL	C	Foreign	Average	70.1	2.26	-3.6	10.0	-5.2	6.8	1.7	100	-12.9	-27.7
FIRST PHILIPPINE	D	Pacific ex-Japan	Very High	89.8	1.75	-1.5	-22.4	-13.8	-22.5	0.0	100	18.9	-20.6
FOREIGN & COLONIAL EMG. MID. EAST	C	Foreign	Average	43.7	2.89	-16.8	11.3	-15.9	13.3	0.0	100	-8.3	-28.0
FRANCE GROWTH	B	Europe	Low	251.9	1.48	35.4	25.2	40.3	24.2	5.0	100	-14.6	-22.9
GABELLI EQUITY	B+	Mid-cap Blend	Low	1206.5	1.14	13.1	17.2	12.1	19.6	9.8	100	6.0	-9.1
GABELLI GLOBAL MULTIMEDIA	B+	Communication	Low	132.6	NA	33.2	25.3	35.3	26.9	0.0	100	-9.4	-19.0
GENERAL AMERICAN INVESTORS	A	Large-cap Blend	Very Low	755.3	0.98	34.6	28.4	30.7	30.3	1.4	100	-6.3	-14.5
GERMANY	B	Europe	Average	505.1	1.19	25.6	26.6	24.6	28.1	13.6	100	-4.2	-22.5
GLOBAL SMALL CAP	C	World	Average	58.1	1.53	5.1	14.9	0.9	14.6	5.4	100	-9.8	-27.1
GREATER CHINA	D	Pacific ex-Japan	High	67.3	1.88	-28.5	-0.5	-35.0	-10.6	0.8	100	1.5	-31.8
H&Q HEALTHCARE INVESTORS	C	Health	Average	190.6	1.57	3.2	7.4	-5.6	-1.2	0.0	100	-13.8	-26.5
H&Q LIFE SCIENCES INVESTORS	C	Health	Average	121.3	1.67	4.3	3.4	-9.0	-2.4	0.0	100	-11.3	-25.5
HANCOCK BANK & THRIFT OPPORTUNITY	A	Financial	Low	1013.1	1.45	1.1	28.8	-17.3	30.2	1.2	100	13.6	-16.5
HANCOCK PATRIOT GLOBAL DIVIDEND	A	Mid-cap Value	Very Low	128.5	1.27	9.2	12.1	12.2	9.7	7.6	100	-9.3	-17.3

How to Use the Tables

Closed-end funds are publicly traded investment companies. Their results are measured two ways: one, by the change in net asset value (NAV), which is generated by the fund's manager; the other, by the change in the shares' market price. Total returns, which include dividends and capital gains, are shown for one- and three-year periods. The three-year figure is an average annual return. All returns are pretax.

BUSINESS WEEK RATING

Ratings are based on three-year risk-adjusted performance of the fund's portfolio. A rating is calculated by subtracting a fund's risk-of-loss factor from total return.

Equity funds are rated against each other, and to earn an above-average rating, must beat the S&P 500 on a risk-adjusted basis. For ratings, municipal bond funds are separated from other bond funds.

A	SUPERIOR
B+	VERY GOOD
B	ABOVE AVERAGE
C	AVERAGE
C-	BELOW AVERAGE
D	POOR
F	VERY POOR

RISK

For each fund, the monthly Treasury bill return is subtracted from

the monthly NAV return in each month of the rating period. When a fund has underperformed Treasury bills, this monthly result is negative. The sum of these negative numbers is then divided by the number of months. The result is a negative number, and the greater its magnitude, the higher the risk of loss.

EXPENSE RATIO

Fund expenses for 1998 as a percent of average net assets. Ratio may include interest expense.

YIELD

Income earned during 1998, as a percentage of yearend NAV per share, adjusted for capital gains.

MATURITY

The average maturity of the securities in a bond fund, weighted according to their market value.

HISTORY

A fund's relative performance during 1996, 1997, and 1998. From left to right, the numbers designate which quartile the fund was in for each period: 1 for the top quartile; 2 for the second quartile; 3 for the third quartile; and 4 for the bottom quartile.

PREMIUM DISCOUNT

The market price of closed-end funds is either less than the value of their securities, a discount, or more, a premium, to their

DATA SOURCE: INVESTMENT RESEARCH CORPORATION

AT WHAT POINT WILL
YOU TRUST YOUR BUSINESS
TO THE INTERNET?

...to VPN Advantage™ the next generation virtual private networking
...from GTE Internetworking. Anyone struggling to balance a teetering
...of business communications needs will now find the Internet a safer,
...cost-effective and comfortable place to do business. A place unfettered
...or budget limitations, thanks to one of the world's largest, fastest and
...rigorously engineered backbone networks. End-to-end encryption and
...top monitoring assure you of the highest level of security commercially
...able. Over 600 US Points of Presence as well as global access deliver the
...for performance and reach your company needs. To further ease your

...mind, our Proactive Service Guarantees stand as the ultimate safety net.
The Internet is not to be feared. It's to be used. Let the architects of the
Internet show you the way.

www.internetworking.gte.com or 800.472.4565



INTERNETWORKING

POWERED BY BBN®

MUTUAL FUND SCOREBOARD

Closed-End Equity Funds

FUND	RATING	CATEGORY	RISK	SIZE	FEES	PERFORMANCE			YIELD	HISTORY	PREMIUM/DISCOUNT		
				ASSETS \$MIL.	EXPENSE RATIO (%)	NAV RET (%) 1 YR.	RET (%) 3 YRS.	SHARES RET (%) 1 YR.		RET (%) 3 YRS.	RESULTS VS. ALL FUNDS	1998 HIGH	LOW
HANCOCK PATRIOT PREFERRED DIV.	A	Mid-cap Value	Very Low	104.1	1.27	8.6	11.2	-4.8	8.2	9.1	200	5.1	-0.5
HANCOCK PATRIOT PREMIUM DIV. I	A	Mid-cap Value	Very Low	163.8	1.26	10.7	12.6	10.1	10.2	7.0	200	-2.8	-10.7
INDIA	C-	Pacific ex-Japan	High	300.5	NA	9.1	-0.3	-14.4	-10.7	0.0	200	-5.3	-31.7
INDIA GROWTH	C-	Pacific ex-Japan	Average	98.6	2.23	2.1	-3.2	-16.2	-15.4	0.0	200	0.8	-36.3
INDONESIA	F	Pacific ex-Japan	Very High	12.5	1.89	-24.1	-33.8	-25.7	-30.2	0.0	200	260.7	36.3
INVESTCO GLOBAL HEALTH SCIENCES	C	Health	Average	499.2	1.22	37.2	22.9	42.5	28.6	2.3	200	-5.7	-14.7
IRISH INVESTMENT	B+	Europe	Low	126.7	1.54	22.5	23.7	19.8	26.1	0.0	200	-5.5	-28.8
ITALY	C-	Europe	Average	170.9	1.29	42.5	28.5	43.8	27.4	1.4	200	-13.8	-25.6
JAKARTA GROWTH	F	Pacific ex-Japan	Very High	10.7	NA	-24.4	-37.0	-26.3	-33.3	0.0	200	106.0	10.0
JAPAN EQUITY	C-	Japan	Average	67.6	1.03	14.5	-15.0	8.7	-17.3	0.0	200	40.1	-0.1
JAPAN OVER-THE-COUNTER EQUITY	D	Japan	High	57.6	NA	19.7	-13.2	9.3	-15.3	0.1	200	42.4	-0.1
JARDINE FLEMING CHINA REGION	D	Pacific ex-Japan	High	68.3	NA	-36.5	-12.3	-43.6	-17.9	0.0	200	1.7	-31.0
JARDINE FLEMING INDIA	C-	Pacific ex-Japan	High	74.5	NA	-13.6	-5.7	-28.3	-17.8	0.0	200	-5.5	-33.4
KOREA	F	Pacific ex-Japan	Very High	392.5	1.63	116.7	-20.5	40.9	-23.1	0.0	200	57.0	-7.8
KOREA EQUITY	F	Pacific ex-Japan	Very High	32.5	NA	88.3	-24.8	17.0	-25.3	0.0	200	54.8	-13.0
KOREAN INVESTMENT	F	Pacific ex-Japan	Very High	30.6	2.11	85.3	-23.8	11.8	-25.9	0.0	200	48.5	-16.8
LATIN AMERICA EQUITY	C-	Latin America	High	86.7	1.89	-40.9	-8.3	-46.9	-13.8	1.1	200	-15.2	-32.4
LATIN AMERICA INVESTMENT	C-	Latin America	Average	91.1	NA	-33.4	-5.0	-38.7	-10.4	5.4	200	-15.0	-31.9
LATIN AMERICA SMALLER COMPANIES	D	Latin America	High	49.1	2.30	-51.1	-17.2	-41.8	-14.8	0.9	200	-0.9	-34.7
LATIN AMERICAN DISCOVERY	C	Latin America	High	111.1	1.82	-33.0	12.2	-42.6	5.8	0.7	200	53.6	-29.8
LIBERTY ALL-STAR EQUITY	B	Large-cap Blend	Low	1350.7	1.01	19.7	22.6	8.7	19.3	0.4	200	2.0	-8.9
LIBERTY ALL-STAR GROWTH	B	Large-cap Blend	Average	198.5	NA	15.0	20.1	7.7	19.1	0.0	200	-0.5	-14.5
MALAYSIA	F	Pacific ex-Japan	Very High	26.3	1.35	-39.4	-42.0	-38.7	-34.4	0.9	200	108.4	29.8
MEXICO	C-	Latin America	High	790.6	0.91	-39.2	4.8	-43.6	-0.5	4.5	200	-17.0	-30.5
MEXICO EQUITY AND INCOME	C	Latin America	Average	129.4	1.49	-40.0	7.3	-43.2	2.4	17.9	200	-14.5	-29.0
MFS SPECIAL VALUE	B	Small-cap Blend	Low	101.5	NA	16.0	17.3	-9.3	15.0	10.2	200	40.5	11.6
MORGAN FUNSHARES	B	Large-cap Growth	Low	8.9	NA	19.4	18.6	22.5	18.3	0.5	200	15.5	-18.4
MORGAN GRENELL SMALLCAP	C	Small-cap Growth	Average	114.0	1.42	0.7	13.0	-12.4	9.5	0.0	200	0.4	-16.2
MORGAN STANLEY AFRICA INVESTMENT	C	Foreign	Average	180.9	1.77	-11.7	-0.5	-20.6	-2.3	1.5	200	-13.9	-29.5
MORGAN STANLEY ASIA-PACIFIC	C-	Div. Pacific	Average	508.7	1.34	-0.3	-11.1	-5.8	-16.7	0.1	200	-5.0	-25.9
MORGAN STANLEY EMG. MKTS.	C-	Div. Emg. Mkts.	Average	225.6	1.84	-19.7	-3.2	-24.9	-12.3	1.1	200	3.3	-26.3
MORGAN STANLEY INDIA INVESTMENT	C-	Pacific ex-Japan	High	306.8	2.06	4.8	1.3	-19.4	-9.6	0.0	200	9.0	-32.2
MORGAN STANLEY RUSSIA & NEW EUROPE	B+	Europe	58.8	2.50	-50.6	NA	-57.4	NA	0.0	200	0.3	-28.1	
NAIC GROWTH	B+	Large-cap Blend	Low	19.5	NA	19.7	22.8	-24.9	19.2	1.2	200	46.9	-17.2
NATIONS BALANCED TARGET MATURITY	A	Dom. Hybrid	Very Low	55.9	1.18	9.7	12.7	7.8	14.5	3.8	200	-0.1	-11.8
NEW GERMANY	B	Europe	Low	233.0	0.99	28.1	21.2	21.4	22.3	6.5	200	-13.8	-25.9
NEW SOUTH AFRICA	D	Foreign	High	41.9	2.35	-26.1	-16.1	-17.9	-11.7	0.0	200	-5.1	-31.7
PAKISTAN INVESTMENT	D	Pacific ex-Japan	Very High	32.5	NA	-56.9	-26.6	-58.0	-26.9	8.7	200	-13.1	-37.0
PETROLEUM AND RESOURCES	C	Nat. Resources	Average	474.8	0.47	-11.1	9.8	-9.8	9.7	2.7	200	5.5	-12.7
PORTUGAL	B	Europe	Average	98.1	1.56	21.6	30.6	27.5	31.4	0.2	200	-5.6	-23.9
ROC TAIWAN	C-	Pacific ex-Japan	Average	246.3	1.51	-17.9	6.0	-20.4	-4.7	4.7	200	-7.0	-28.5
ROYCE GLOBAL	C	Small-cap Value	Average	47.4	0.94	1.0	8.6	4.3	11.6	9.6	200	-9.2	-21.9
ROYCE MICRO-CAP	C	Small-cap Value	Low	135.5	0.83	-4.0	12.5	-9.3	11.7	0.8	200	-4.2	-16.0
ROYCE VALUE	C	Small-cap Value	Low	516.9	0.67	0.9	14.1	-1.0	14.0	5.5	200	-3.4	-13.6
SALOMON BROTHERS	A	Large-cap Blend	Low	1696.2	NA	19.1	24.4	20.9	29.2	0.8	200	1.0	-13.4
SCUDDER NEW ASIA	C	Div. Pacific	Average	102.8	1.90	3.8	-6.0	-3.9	-11.3	0.0	200	3.0	-26.7
SCUDDER NEW EUROPE	A	Europe	Low	374.0	NA	34.9	29.6	36.6	28.3	0.1	200	-13.7	-27.3
SCUDDER SPAIN AND PORTUGAL	B+	Europe	Average	22.3	1.74	33.6	32.9	38.0	43.7	3.8	200	15.5	-15.4
SINGAPORE	D	Pacific ex-Japan	High	72.6	1.87	8.8	-14.8	-6.4	-19.9	1.6	200	20.5	-16.9
SOURCE CAPITAL	B	Mid-cap Value	Low	363.6	0.87	5.4	17.5	5.4	18.8	9.4	200	14.3	-2.3
SOUTHEASTERN THRIFT & BANK	B+	Financial	Low	100.2	1.06	-4.8	24.8	-18.0	23.8	1.3	200	12.6	-17.6
SOUTHERN AFRICA	C-	Foreign	High	73.3	2.05	-24.3	-6.6	-23.6	-4.5	4.1	200	-14.5	-28.5
SPAIN	A	Europe	Low	203.6	1.55	56.0	40.4	53.0	44.8	2.6	200	-10.4	-20.5
SWISS HELVETIA	C	Europe	Average	469.9	1.17	23.0	20.8	24.0	19.6	0.4	200	-15.6	-25.2
TAIWAN EQUITY	C-	Pacific ex-Japan	High	59.2	NA	-9.5	8.6	-14.4	-2.9	0.0	200	-13.9	-32.2
TAIWAN	C-	Pacific ex-Japan	High	259.6	NA	-14.0	5.5	-18.4	-5.1	0.0	200	-6.3	-29.1
TEMPLETON CHINA WORLD	D	Pacific ex-Japan	High	156.1	NA	-18.5	-6.7	-26.7	-12.6	3.5	200	-0.0	-29.4
TEMPLETON DRAGON	C-	Pacific ex-Japan	High	528.5	1.53	-18.0	-4.5	-25.7	-11.2	7.7	200	1.7	-28.0
TEMPLETON EMERGING MARKETS	C	Div. Emg. Mkts.	Average	159.9	1.67	-15.6	2.2	-19.2	-3.4	2.1	200	67.5	-12.6
TEMPLETON EMERGING MARKETS APPREC.	C	Int. Hybrid	Average	48.4	1.88	-12.0	5.6	-24.9	-3.4	4.5	200	4.6	-20.7
TEMPLETON RUSSIA	F	Europe	Very High	41.4	1.99	-70.9	-5.0	-74.8	-5.9	0.2	200	78.3	-2.1
TEMPLETON VIETNAM & S.E. ASIA	C-	Pacific ex-Japan	High	42.5	NA	14.5	-10.5	-7.6	-14.0	0.0	200	1.3	-24.4
THAI	F	Pacific ex-Japan	Very High	52.5	1.44	11.1	-45.3	14.9	-34.4	3.2	200	155.4	44.3
THERMO OPPORTUNITY	C	Technology	15.3	NA	-31.2	NA	-37.8	NA	0.0	200	-11.7	-30.5	
TURKISH INVESTMENT	C-	Foreign	High	41.2	1.91	-33.0	9.2	-39.0	-4.4	2.7	200	-8.9	-25.2
TUXIS CORPORATION	B	Dom. Hybrid	Very Low	12.4	NA	7.3	5.3	19.6	NA	8.2	200	1.1	-11.3
UNITED KINGDOM	B+	Europe	Very Low	71.4	NA	10.3	15.3	15.2	20.3	2.2	200	-6.2	-17.1
Z-SEVEN	C	World	Average	19.9	NA	7.4	8.8	-24.4	1.1	0.7	200	31.1	-6.3
ZWEIF	B	Dom. Hybrid	Low	723.5	1.16	5.9	13.9	-8.7	9.5	11.2	200	13.5	-9.1
ZWEIF TOTAL RETURN	B+	Dom. Hybrid	Very Low	757.2	1.04	8.0	9.4	4.4	12.1	9.5	200	12.4	-1.3

DATA: MORNINGSTAR, INC., CHICAGO

Miss Buffy

Has a Great Family of Products

You know Miss Buffy for quality in a wide range of products from frozen dinners to pain relievers and more. So use the money-saving coupons below and save on your favorite Miss Buffy brand!

SAVE 25¢ On any large family size meal  Frozen Dinners	SAVE 55¢ On any 2.5 OZ size Pain Reliever Regular or extra strength  Pain Reliever	SAVE 55¢ On Any Flavor Cat Yum Yums  Cat Yum Yums
--	--	---



Miss Buffy's
Cat Yum Yums
Make Your Cat Smile.

They have the taste your cat will love. And when you use our coupon, they'll have the savings you love!

SAVE 55¢
Miss Buffy's Cat Yum Yums



Funny how consumers see a brand better when it's the only one in your FSI.

If you manage a brand, do you want it to purr or have some bite?

When you gang together brand coupons in an FSI, you might not get what you want. So how do you make a case for a single-coupon ad?

Well, simple logic says that a *family of products* coupon ad, by its nature, tends to be more general. So there's less focus on each individual brand.

Research also shows that single-coupon ads

versus multiple-coupon ads generate 47% higher redemptions, increase trial 42% and generate 38% more incremental volume for your brand. And, contrary to conventional wisdom, there's no real difference in ROI between single and multiple coupon ads.

We can tell you more. Call the FSI Council: 888-FSI-0881.

Grrr...



FSI Coupons. Rediscover what they're worth.

The Charles Brewer Story

HOW ONE GEORGIAN TURNED A FLOOD OF KNOWLEDGE INTO A MINDSPRING.

 **MindSpring:** *The key to cyberspace and a billion dollars fits the door to an apartment in Atlanta. That's where Charles Brewer started an Internet services company called MindSpring. In just three short years, Brewer and some of Georgia's brightest minds turned a one-man show into a billion dollar enterprise that serves more than 400,000 subscribers. That's the Charles Brewer story, and he wrote it in Georgia.*

WHERE'S YOUR STORY GOING?

Call 404-656-9306
www.georgia.org


Founder and CEO MindSpring Enterprises



GEORGIA

Georgia Department of Industry, Trade & Tourism

201 Peachtree Center East, 11th Floor, Tower Two, Atlanta, GA 30333-1230, 404-656-9306, www.georgia.org

UTUAL FUND SCOREBOARD

Closed-End Bond Funds

FUND	RATING	CATEGORY	RISK	SIZE	FEES	PERFORMANCE				PORTFOLIO		HISTORY	PREMIUM/DISCOUNT		
				ASSETS \$MIL	EXPENSE RATIO (%)	NAV RET (%)	SHARES RET (%)	1 YR	3 YRS	YIELD (%)	MAT (YRS)	RESULTS VS ALL FUNDS	1998 HIGH	LOW	1/29/99
M GOVERNMENT INCOME	F	Multisector	Very High	517.2	NA	-9.3	6.8	-10.1	10.6	8.9	20.5	114	18.0	-5.2	3.7
M GOVERNMENT SECURITIES	F	Multisector	Very High	690.2	1.08	-8.3	7.5	-10.1	10.3	9.5	16.6	114	4.8	-7.8	-1.8
ANCE WORLD DOLLAR GOVT. II	F	Emerg. Mkts.	Very High	694.4	1.26	-27.8	3.8	-30.0	5.3	13.7	20.9	114	17.8	-6.7	9.0
ERICAN SELECT	A	Interm. (Gen.)	Low	154.5	NA	11.4	10.5	8.4	12.5	8.9	5.1	221	-5.2	-10.1	-8.8
ERICAN STRATEGIC INCOME	A	Interm. (Gen.)	Low	61.3	NA	9.6	9.4	8.5	10.3	8.3	12.6	221	-6.7	-10.9	-8.7
ERICAN STRATEGIC INCOME II	A	Interm. (Gen.)	Very Low	234.6	NA	10.1	9.3	8.8	12.2	8.6	13.7	231	-7.6	-11.6	-9.8
EX MUNICIPAL FUND	A	Muni. Ntl. Long	Very Low	208.3	NA	6.1	8.5	6.3	13.5	6.1	21.5	223	1.8	-6.1	-4.4
ACKROCK INCOME	B+	Long (Gen.)	Average	502.3	1.02	6.7	9.6	6.5	11.7	8.1	23.4	212	-9.8	-16.0	-13.7
ACKROCK INSURED MUNICIPAL 2008	C	Muni. Ntl. Long	Average	464.5	NA	6.9	7.6	11.3	11.9	4.9	10.2	332	-5.1	-10.1	-9.9
ACKROCK NORTH AMER. GOVT. INCOME	B	International	High	437.5	0.93	7.7	10.4	4.0	10.8	8.3	16.3	231	-13.3	-20.3	-16.9
ACKROCK STRATEGIC TERM	B+	Interm. (Gen.)	Low	580.4	NA	11.3	8.8	14.0	12.8	5.2	12.5	331	-8.1	-12.3	-8.8
ACKROCK TARGET TERM	C	Interm. (Gen.)	Low	975.1	NA	8.4	6.7	10.8	10.1	5.5	13.8	341	-4.2	-7.2	-3.6
ONIAL MUNICIPAL INCOME	A	Muni. Ntl. Long	Very Low	208.7	NA	7.8	7.1	13.6	13.5	6.1	21.3	341	9.1	-2.2	6.2
EYFUS CALIF. MUNICIPAL INCOME	A	Muni. Calif. Interm.	Very Low	44.0	0.98	4.9	6.6	7.0	16.6	5.4	23.5	243	8.8	0.9	6.8
EYFUS STRATEGIC MUNI. BOND	B+	Muni. Ntl. Interm.	Very Low	453.3	NA	5.9	6.1	-2.3	9.1	6.3	20.5	343	13.5	-3.5	-2.1
EYFUS STRATEGIC MUNICIPALS	B+	Muni. Ntl. Interm.	Very Low	590.8	NA	6.2	6.5	-2.9	8.3	6.2	23.3	341	9.4	-3.7	-6.9
FF & PHELPS UTIL. & CORP. BOND	D	Long (Gen.)	Very High	526.3	0.92	10.7	8.5	15.4	12.3	7.7	20.8	411	7.0	-4.9	1.0
SWORTH CONV. GROWTH & INCOME	A	Convertibles	High	83.3	1.20	13.2	19.0	9.2	18.5	3.2	5.6	111	-3.8	-14.5	-15.1
ST AUSTRALIA PRIME INCOME	F	International	Very High	1211.3	1.25	-0.1	1.8	-12.5	-5.8	12.8	6.1	142	-1.8	-27.5	-13.0
WPER MUNICIPAL INCOME	B	Muni. Ntl. Interm.	Low	476.3	1.01	5.6	6.6	6.5	10.7	6.1	21.9	343	20.0	5.4	-0.4
WPER STRATEGIC MUNICIPAL INCOME	A	Muni. Ntl. Interm.	Very Low	130.5	0.76	4.7	6.7	1.7	7.4	6.0	19.1	233	9.2	-1.8	0.9
WAGED HIGH-INCOME	C	High Yield	High	454.3	1.20	0.7	8.8	-8.7	9.1	10.2	9.4	224	5.1	-8.9	-6.3
WAGED MUNICIPALS	D	Muni. Ntl. Long	Average	426.8	1.00	5.4	6.4	-2.2	4.5	4.9	21.1	433	-2.0	-12.7	-9.8
S CHARTER INCOME	C	Multisector	Average	722.9	0.86	4.6	7.8	8.4	11.9	8.4	11.3	233	-1.8	-10.2	-4.1
S GOVERNMENT MARKETS INCOME	C-	Multisector	Average	517.1	NA	7.7	6.5	5.0	8.5	7.1	11.9	341	-6.8	-13.5	-14.0
S INTERMEDIATE INCOME	C	Multisector	Low	1091.4	0.90	6.7	6.7	4.5	8.8	7.5	13.0	242	-4.1	-12.9	-11.6
S MULTIMARKET INCOME	D	Multisector	High	731.2	0.77	0.7	6.7	-1.1	8.2	9.1	10.9	234	-5.5	-12.2	-11.8
INESOTA MUNICIPAL TERM	B+	Muni. S.S. Long	Very Low	65.5	NA	5.1	5.7	9.6	8.9	5.3	13.9	343	3.5	-6.4	-1.1
DW HIGH INCOME ADVANTAGE III	F	High Yield	High	64.0	0.98	-10.2	2.4	-10.9	5.6	11.2	5.9	234	29.1	4.4	18.3
DW MUNICIPAL INCOME OPPORTUNITY	A	Muni. Ntl. Long	Very Low	186.4	1.04	7.3	8.2	18.5	12.2	5.9	19.0	232	11.4	-2.7	7.2
DW MUNICIPAL INCOME OPPORTUNITY II	A	Muni. Ntl. Long	Very Low	181.5	NA	6.6	7.7	7.0	8.2	6.0	20.8	232	-0.1	-5.9	-4.0
DW MUNICIPAL INCOME OPPORTUNITY III	A	Muni. Ntl. Long	Very Low	106.0	NA	6.6	7.5	-0.9	10.1	6.4	19.2	232	6.0	-7.1	-6.3
RGAN STANLEY HIGH-YIELD	A	High Yield	High	152.8	1.06	4.0	13.1	11.0	20.1	8.8	9.4	113	9.8	-11.5	12.0
RIASSETS	A	Muni. Ntl. Long	Very Low	152.6	NA	4.9	7.7	8.4	12.0	5.8	19.3	233	0.4	-9.2	-1.5
MICIPAL HIGH-INCOME	A	Muni. Ntl. Long	Very Low	197.2	0.74	5.0	7.1	4.4	12.2	6.3	21.9	233	6.9	-4.9	-1.2
NIVEST	C	Muni. Ntl. Long	Average	619.6	0.93	6.3	7.4	9.8	12.6	5.8	19.2	332	2.2	-55.9	-0.5
NIYIELD	B	Muni. Ntl. Long	Average	591.3	0.91	6.4	8.2	12.4	14.1	5.7	21.8	222	7.7	-3.9	3.6
NIYIELD INSURED	C-	Muni. Ntl. Long	Average	972.2	NA	6.9	7.5	13.6	14.3	5.4	22.4	332	5.6	-8.9	0.3
NIYIELD QUALITY	C	Muni. Ntl. Long	Average	472.3	NA	6.8	7.5	11.0	13.8	5.7	19.5	422	1.4	-7.5	-3.0
IONS GOVERNMENT INCOME 2003	A	Long Govt.	Average	147.3	NA	9.2	11.9	13.5	13.1	6.2	10.0	221	0.0	-10.9	-8.1
IONS GOVERNMENT INCOME 2004	A	Interm. Govt.	Average	124.8	NA	9.9	11.9	14.4	13.6	6.4	10.1	221	-0.1	-12.0	-6.6
VEEN CALIFORNIA MUNICIPAL VALUE	A	Muni. Calif. Interm.	Very Low	260.6	0.74	7.8	7.0	11.1	5.6	5.0	21.2	341	5.4	-6.2	-7.4
VEEN INS. PREMIUM INCOME MUNI. 2	D	Muni. Ntl. Long	Average	523.3	NA	7.2	7.2	11.7	11.7	5.3	17.8	422	-1.2	-8.0	-4.9
VEEN INS. QUALITY MUNICIPAL	C	Muni. Ntl. Long	Low	595.5	NA	6.3	6.4	5.2	9.6	5.7	23.3	342	3.4	-3.4	-2.9
VEEN INVMT. QUALITY MUNICIPAL	B	Muni. Ntl. Interm.	Low	567.6	NA	6.1	6.6	5.9	8.8	6.1	20.3	433	3.8	-3.5	-1.6
VEEN MUNICIPAL ADVANTAGE	B	Muni. Ntl. Interm.	Low	673.5	NA	6.0	6.5	9.3	7.9	6.1	20.7	343	4.4	-0.8	0.9
VEEN MUNICIPAL INCOME	A	Muni. Ntl. Interm.	Very Low	95.8	0.83	6.0	6.5	8.7	7.8	5.7	21.2	343	6.2	-1.8	0.2
VEEN MUNICIPAL MARKET OPPORT.	B+	Muni. Ntl. Interm.	Very Low	717.7	NA	6.1	6.5	8.1	8.2	6.1	20.8	343	5.0	-1.7	1.4
VEEN MUNICIPAL VALUE	B+	Muni. Ntl. Long	Very Low	1999.5	0.68	6.6	6.9	8.6	7.0	5.3	20.8	332	-2.0	-8.0	-4.7
VEEN PERFORMANCE PLUS MUNICIPAL	B+	Muni. Ntl. Interm.	Low	918.1	0.77	6.4	6.7	4.3	5.9	6.2	21.7	343	3.8	-4.7	-4.8
VEEN PREMIUM INCOME MUNICIPAL	B	Muni. Ntl. Long	Low	998.8	NA	7.2	7.3	9.2	8.4	5.8	22.4	332	-1.0	-6.8	-2.6
VEEN QUALITY INCOME MUNICIPAL	B+	Muni. Ntl. Interm.	Very Low	848.7	0.78	5.8	6.7	9.1	11.5	6.0	21.3	333	9.3	1.4	3.9
VEEN SELECT QUALITY MUNICIPAL	B+	Muni. Ntl. Interm.	Low	527.8	NA	6.1	6.8	6.2	10.4	5.9	21.3	333	6.3	0.1	0.8
GRIM PRIME RATE TRUST	B+	Ultrashort	Very Low	1751.3	1.39	7.7	7.7	-2.5	9.2	8.8	5.6	231	12.2	-1.2	3.2
EFERRED INCOME	A	Long (Gen.)	Low	159.6	1.34	6.2	11.6	7.4	16.5	6.9	32.4	213	-0.1	-7.8	-5.6
EFERRED INCOME MANAGEMENT	A	Long (Gen.)	Low	149.5	1.60	6.4	12.6	-7.3	12.4	7.3	32.8	112	-0.5	-17.8	-21.3
EFERRED INCOME OPPORTUNITY	A	Long (Gen.)	Low	148.8	NA	6.9	12.5	8.5	17.8	7.3	NA	212	-1.3	-9.5	-6.8
TNAM DIVIDEND INCOME	A	Long (Gen.)	Low	65.7	1.46	5.8	9.9	11.0	12.5	6.3	NA	233	-4.9	-12.2	-8.3
TNAM HIGH YIELD MUNICIPAL	A	Muni. Ntl. Long	Very Low	202.9	1.12	5.2	6.5	9.6	12.1	6.1	22.1	233	26.0	11.9	17.0
TNAM MANAGED MUNICIPAL INCOME	C	Muni. Ntl. Long	Low	453.6	1.18	4.3	5.4	5.8	10.1	6.5	20.1	443	23.1	4.4	9.7
TNAM MASTER INCOME	D	Multisector	High	439.5	0.93	-0.9	5.9	-1.6	9.2	9.4	11.5	244	0.9	-9.9	-2.2
TNAM MASTER INTERM. INCOME	C-	Multisector	Average	797.5	1.01	1.7	6.3	5.2	11.4	8.7	7.8	343	0.8	-10.4	0.3
TNAM PREMIER INCOME	D	Multisector	High	1113.7	0.82	-0.5	6.1	5.3	11.9	9.0	13.1	244	5.0	-9.4	3.5
TNAM TAX-FREE HEALTH CARE	A	Muni. Ntl. Long	Very Low	206.0	0.89	5.3	7.7	11.9	14.3	5.8	19.8	333	6.5	-4.4	-3.6
STRATEGIC GLOBAL INCOME	A	International	Average	265.4	1.20	9.2	10.5	6.2	11.8	9.2	13.6	143	-9.7	-20.1	-13.0
W/DW TERM TRUST 2000	F	Short (Gen.)	High	455.3	NA	9.3	9.5	9.0	13.8	5.9	15.0	221	-3.8	-7.4	-3.8
WPLETON EMG. MKTS. INCOME	B	Emerg. Mkts.	Very High	529.1	1.19	-8.8	8.4	-14.0	4.8	13.1	10.8	133	-0.7	-12.9	-14.8
WPLETON GLOBAL INCOME	C-	International	Average	942.8	0.75	6.4	7.2	2.4	8.6	8.5	6.3	232	-7.4	-14.8	-12.9
N KAMPEN MUNICIPAL	B	Muni. Ntl. Long	Low	610.0	1.61	7.0	7.9	13.7	14.1	5.5	21.2	322	1.0	-7.8	-4.3
N KAMPEN INVESTMENT GRADE MUNIS.	C	Muni. Ntl. Long	Average	472.3	NA	6.3	7.8	13.1	10.6	5.7	20.6	322	-0.2	-9.8	-7.1

=Not available

DATA: MORNINGSTAR, INC., CHICAGO, IL



PEAK

PERFORMANCE

It's what you'd

EXPECT

FROM PEOPLE IN THE

MOUNTAIN

STATE

It's as if the term "the great outdoors" was invented for West Virginia. The majestic mountain scenery has been known to inspire a passion for nature in even the most jaded urbanite. The countryside can take your breath away, so the next time you're driving

Toyota Motor Manufacturing



West Virginia, USA

through this natural wonder, do what the locals often do. Stop the car and see what the mountain air will inspire in you.

Of course, if you happen to be driving a Toyota through the Mountain State in the near future, you may have the advantage of some local passion right there with you.

That's because West Virginians are now producing Toyota engines at a brand-new manufacturing plant in Putnam County. By the time it's fully operational, this \$900 million plant will have the capacity to build 500,000 engines and 360,000 transmissions per year, using many U.S. parts.

Local people manufacture Toyota vehicles and components in 25 countries around the world. It helps the products we sell answer the special needs and standards of all our drivers, wherever they may be.

Here in America, our second-largest manufacturing base, Toyota has invested nearly \$8 billion in manufacturing, research and design.

Local investment. It's the engine for growth in West Virginia – and in communities around the world.

TOYOTA People Drive Us

FORMER LIVENT
CEO DRABINSKY

INVESTIGATIONS

IS FRAUD THE THING?

The SEC's case against Livent execs points up a dangerous career path: From outside auditor to inside player

Each time Maria Messina walked down the hall of the executive suite at Livent Inc. in late 1997, she looked a little more strained, recalls Marty Bell, Livent's former senior vice-president for creative affairs. As a vice-president and chief financial officer at the financially strapped Broadway producer, Messina would naturally be under some pressure. But to Bell, it seemed as if all the weight of the Toronto-based company's problems fell on her shoulders. "I could tell something was getting to her," Bell recalls, noting that Messina at other times had discussed the stresses of her work. "She was carrying around something she wouldn't talk about."

Now, Bell and other former Livent colleagues know just how much of a burden Messina was carrying. Messina, who joined Livent in 1996 after serving as its outside auditor at Deloitte & Touche since 1993, had been immersed in what

the Securities & Exchange Commission charges was "a multifaceted and pervasive accounting fraud." For her role in helping carry out the alleged scheme, Messina pleaded guilty on Jan. 7 to a federal felony charge. The 36-year-old single mother of a 10-year-old girl now faces up to five years in jail and fines as high as \$250,000. She declined to discuss the case.

"EGREGIOUS." As described in court papers filed in the U.S. and Canada, the allegations surrounding Livent provide a disturbing look at how outside auditors can be hoodwinked by managers determined to cook the books. The case also offers an unsettling example of an independent auditor who was lured to a client—an all-too-common move that worries regulators because they believe the opportunity might tempt an auditor to tread lightly. In Livent's case, Messina even joined the scheme later. Says SEC enforcement director Richard H. Walker: "This is one of the most extreme and egregious types of cases."

Messina and five other former Livent insiders who have turned state's evidence in the case were just supporting actors, according to the U.S. Attorney's Office in New York and separate lawsuits filed by the SEC and new management at Livent.

The alleged fraud, the authorities say, was directed by Livent founder and Chief Executive Officer Garth H. Drabinsky and his longtime partner, former Livent President Myron I. Gottlieb. Drabinsky and Gottlieb built a \$200 million company, with the concept of bringing corporate management to Broadway along with such award-winning shows as *Ragtime*. Now, both are targets of a federal indictment.

Drabinsky and Gottlieb deny the charges, claiming they spring from a conspiracy to drive them out of Livent orchestrated by Roy Furman, the company's current chairman and CEO. Hollywood investor and former Livent President Michael S. Ovitz. In November, they filed a countersuit in Toronto against Livent's current management. "We know of no alleged illegal accounting practices," Drabinsky said at a press conference after the indictment was announced Jan. 13. Neither would comment on specific allegations. A Livent spokesman says present management believes the indictment of the pair "makes very clear what happened."

By using specially tailored software to carry out exhaustive manipulations, the SEC alleges, the top Livent executives masked losses and shifted

A man and a woman are dancing in a dimly lit room. The man is wearing a dark suit and a light-colored jacket, and the woman is wearing a light-colored dress. They are both smiling and looking at each other. The background is dark and out of focus, suggesting a restaurant or a formal event.

VIAGRA[®]
(sildenafil citrate) tablets
Let the dance begin.

dress up results well enough to enable them to raise more than \$179 million in public equity and debt markets. At first, a chief goal of Livent's accountants appears to have been to fool outside auditors, as described by the SEC. Had Livent expected been recording changes in individual journal entries, for instance, that would have raised a red flag. So, regulators allege, Livent's senior vice-president for finance, Gordon C. Eckstein, in 1994 had information-management staffers write a computer program that would let accountants make wholesale adjustments on millions of dollars of invoices.

Eckstein and his colleagues also sought to hide theatrical disappointments, the SEC charges. From 1994 on, they allegedly shifted costs from the failed *Sunset Boulevard* to shows in development, such as *Show Boat*. Eckstein, who refused comment, pleaded guilty on Dec. 30 to a federal charge of conspiring with Drabinsky and Gottlieb to manipulate Livent's results. More recently, he consented to an SEC injunction against breaking securities laws, and he is now cooperating with the government.

GARBAGE IN. As described by the U.S. attorney, Messina and her colleagues at Deloitte combed the company's reports routinely before signing off on them each year. As auditors typically do, they scanned accounts payable, reviewed schedules of preproduction costs, examined fixed-asset accounts, and sought written assurances from Livent managers about the accuracy of the figures. Their goal: to make sure the figures met accounting standards. But they didn't know, authorities say, that the records had been doctored.

The manipulations were so exhaustive, the government charges, that Eckstein insisted that Livent keep two sets of books. From 1995 to 1998, Senior Controller D. Grant Malcolm allegedly maintained computer files of the changes to keep track of

WHAT THE SEC SEES

Federal prosecutors and the Securities & Exchange Commission allege that Livent pumped up its results using these techniques. The company's past management says the allegations are "baseless" and reflect a conspiracy by present management to gain control.

THE "EXPENSE ROLL" Livent's accounting staff pushed expenses from one quarter into the next, often erasing entries in the general ledger and then reentering them.

THE "AMORTIZATION ROLL" After spreading current production costs over several years, staffers reversed large shares of the costs periodically and didn't log them as expenses. This reduced amortized expenses and inflated net income.

SHIFTING COSTS Staff erased operating expenses from ongoing productions and reentered them as preproduction costs for other shows. Because preproduction costs are treated as assets, Livent's net income and assets seemed higher.

are obligated only to ensure that financial statements are prepared in line with generally accepted accounting principles and report fraud if, while following those standards, they find it. "When management conspires, it's very, very difficult for auditors to detect fraud," Elitzur says. Deloitte says it followed standard accounting principles. And it continues to audit Livent's books.

Messina seems to have been kept in the dark while at Deloitte. But she admitted in her plea that she eventually joined in the scheme after arriving at Livent. The SEC alleges that in 1996, the year she was hired, she helped keep her former Deloitte colleagues from learning of certain fees Livent had to pay for the rights to perform *Show Boat*. Those fees would have hiked reported liabilities, the SEC says. Messina disputes that she knew what was going on in 1996, and she has not settled the SEC charges. But she doesn't disagree that by October, 1997, she

Livent's true finances. The SEC charges that he had to "distinguish between the real and phony numbers." Malcolm has consented to an SEC injunction against securities violations without admitting or denying the allegations. He is cooperating with the SEC's ongoing investigation. Eckstein, alleges the SEC, fully briefed Drabinsky on the manipulations.

Shouldn't Deloitte have caught such massive fraud? That's the common perception, says Ramy Elitzur, an accountant and former auditor who teaches at the University of Toronto's Rotman School of Management. But under current U.S. and Canadian accounting practices, auditors

had learned about such manipulation the "expense roll," where Livent accountants erased expenses in one quarter and entered them in the next one. Farther than protest, Messina signed the falsified statements crucial to Livent's \$179 million debt offering in 1997, she admitted in her federal guilty plea.

While Messina declined comment, friend Bell believes she felt trapped and intimidated. "She was probably pulled into it," says Bell, who was let go after cost-related downsizing last fall. But the SEC takes a tougher view, saying Messina should have quit or blown the whistle to the Livent board or to outside authorities. Argues Walker: "There's always people to complain to." **NEW GUY.** The SEC says the scheme began unraveling for financially strapped Livent in mid-1998, when Drabinsky agreed to bring in longtime friend and now critic—Furman, a founding partner of brokerage Furman Selz Inc., as a consultant. Furman persuaded Ovitz to invest \$1 million. Ovitz, in turn, brought in a top accounting heavyweight Robert B. Webster from KPMG Peat Marwick. As described in court papers filed in Canada, Livent, Webster was troubled last year by staffers' reluctance to deal with Drabinsky, he heard, was telling him to hold back information. Late on at Messina and four others—not including Eckstein—came forward. Webster mentioned them for two days and then briefed the board. Drabinsky and Ovitz were promptly suspended. By November, they had been fired, and Livent plunged into bankruptcy reorganization.

For Messina and her colleagues, Broadway glitz has turned tawdry. In spite their cooperation and over the objections of current management, all five went to Webster when he was asked to go at the demand of the SEC. "A whistle-blower is a good soldier to have on your side and a person who created a fraud to cover up," says the SEC's Walker. "We charged them with fraud."

Livent's legal strategy could play far longer than some of its Broadway productions. And when the curtain finally drops, it will leave behind a long script on the fair accounting safeguards and ethics.

By Joseph White
Toronto, with
Byrnes in Washington



CEO FURMAN

The new chief brought in Ovitz. Ovitz brought in a new accountant, who found staffers reluctant to talk to him

ED BY ELLEN LICKING



PEEPING ON RIGHT SIDE OF THE BRAIN

BY PUBLISHED IN THIS issue of *Nature* gives meaning to the phrase "ing on the job." Sleep chers at Indiana State rsity say most birds evolved the ability to with one eye open and half of their brains, a phenomenon called nispheric sleep. Ag- g to Niels C. Ratten- the study's lead re- er, this means the birds et much needed rest simultaneously watch- for lurking dangers. nderstand when, and birds sleep this way, borg's team videotaped mallard ducks. They that when the ducks arranged in a row, the cks spent three times in unihemispheric sleep heir center neighbors. ie end ducks controlled side of the brain slept ich side stayed awake, ng their open, wakeful toward perceived and away from the lucks. Measurements n-wave activity con- the behavioral studies, g a one-to-one corre- ce between open eyes keful brains. Can hu- sleep like this? Unfor- y not, although Rat- says that some sleep rs, like sleepwalking, ve their roots in uni- eric sleep. □

FLUORESCENT LIGHTS GET A GREEN GLOW

FLUORESCENT LIGHTS ARE cheap, efficient, and bright. But because they contain mercury, a highly toxic gas that damages the environ- ment, they are far from per- fect. Now, in this week's *Sci- ence*, researchers from Utrecht University in the Nether- lands report an important ad- vance in the quest for a "greener" fluo- rescent light.

Turning on a fluorescent lamp involves more than flipping a switch. It requires both particle physics and chemistry to do the job. When electricity passes through the mercury- filled tube, the liquid vapor- izes and emits ultraviolet (UV) light particles called photons. Next, phosphors, crystals on the inner walls of the tube, absorb the UV light and re-

emit the energy to make white light.

Replacing the mercury in- side the tube with an inert gas like xenon would bypass the current environmental hazards, but the stumbling block has been the phosphors. The current crystals can't ef- ficiently transfer the energy from the xenon-produced pho- tons to make visible light. So

the Dutch researchers, led by Andries Mei- jerink, searched for new phos- phors and dis- covered two that work to- gether to emit red light.

Because plain red light isn't use- ful in most com- mercial settings, Meijerink is currently hunting for phosphors that emit green and blue photons, which can be used in combination with the red photons to create white light. Meantime, Royal Philips is helping the Dutch group optimize the new phos- phors for future commercial applications. □



A STARVATION DIET FOR TUMORS

A NEW CLASS OF TUMOR-FIGHTING DRUGS CALLED VASCULAR targeting agents (VTAS) are able to home in on and de- stroy large solid tumors that can't be treated by more conventional kinds of therapy, researchers report in a recent issue of *Cancer Research*. The drugs, the brain- child of Dr. Philip Thorpe of the Maine Medical Re- search Institute, are being patented and developed by biotechnology company Techniclone Corp., based in Tustin, Calif.

The VTAS work by insidious means, shutting off the supply of oxygen and nutrients to the tumor cells by in- ducing clots in the blood vessels that surround them. Without an oxygen source, the tumor cells die off in a matter of days or weeks. Because the VTAS target the surrounding blood vessels, not the tumor cells them- selves, they don't have to penetrate the innermost lay- ers of the tumor to have an effect.

This means much less drug is needed, minimizing po- tential harmful side-effects. And drug resistance is not likely to be a problem either, because mutations in tu- mor cells will not affect the drug's effectiveness. The company is planning to begin clinical trials with VTAS in the next 12 to 18 months. □

AIDS DRUGS MAY REHABILITATE THE IMMUNE SYSTEM

SOME POWERFUL DRUGS ARE keeping the AIDS virus un- der control in thousands of patients. And the fact that certain immune cells, called CD4 cells, increase in number after drug treatment sug- gests that patients' immune systems have at least partly recovered. But doctors wor- ry that recovering immune systems might still be vul- nerable to diseases like *Pneumocystis carinii pneu- monia* (PCP), one of the many so-called opportunistic infections that strike AIDS victims. That's why physi- cians continue to recommend taking medicine to prevent these infections.

Researchers in Madrid and Barcelona decided to find out what happens when patients call a halt to preventive treatment. The researchers recruited 332 people infected by the HIV virus whose CD4 cell counts had gone up after taking anti-AIDS drugs. Roughly half of them contin- ued to take drugs to prevent PCP. The other half went without.

The results, reported on Feb. 4 at the 6th Conference on Retroviruses & Oppor- tunistic Infections in Chicago, were dramatic. Although AIDS patients are extremely susceptible to PCP infections, none of the study partici- pants came down with the disease during the six-month investigation.

Experts were encouraged by the findings. Dr. Constance A. Benson, the vice-chairman of the retroviral meeting's sci- entific program committee, says that there is now a growing body of evidence suggesting "that with potent anti-retroviral therapy, peo- ple can recover some immune function, which can protect them against opportunistic disease." *John Carey*

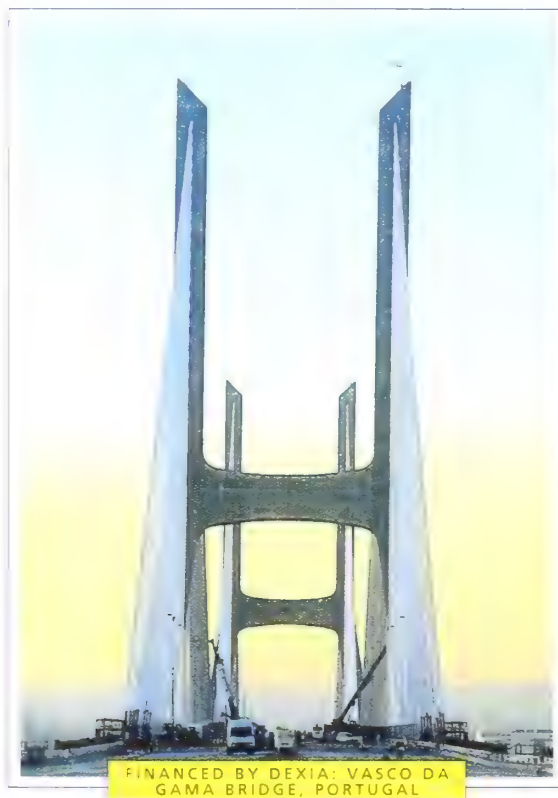


EUROPE'S LEADING BANKING GROUP IN THE FINANCING OF PUBLIC SERVICE FACILITIES

After years of planning, the roll-out of the Euro, the single European currency, is underway. But will businesses and government agencies that have been operating locally have what it takes to expand now that economic borders have been removed?

They will if they choose banking partners that understand the new rules. One such establishment is the European group Dexia, formed in 1996 from the merger of the Credit local de France and the Credit Communal de Belgique. With total assets of €187 billion (\$161.2 billion) as of June 1998, it is a banking group that was designed expressly to serve the needs of the European Community as it evolves under the new currency.

"The Euro will allow the group to fully play a role as a European banking group in a market of 300 million inhabitants," explains Pierre Richard, co-chairman. "Indeed, the creation of the group was inspired by the Euro and it is the specialized nature of the group that gives it its strength."



"The Euro will allow the group to fully play a role as a European banking group in a market of 300 million inhabitants."

DEXIA: ONE OF THE TOP 25 LARGEST EUROPEAN BANKS

Its main core business being the financing of public service facilities, structure projects and financial support to local governments, Dexia works through the alliance of the local de France, the chief financier of French local governments and the Crédit Communal de Belgique, which is the leader in local government financing in Belgium.

Those two operating companies are under the aegis of two holding companies. They are Dexia France, quoted on the CAC 40, and Dexia Belgium, listed on the Brussels stock exchange (BEL20). Together, they boast a total capitalization of €9.5 billion (\$8.1 billion) as of September, 1998.

Dexia is managed by a co-management committee, made up of the two co-chairmen, Pierre Richard, vice chairman of Credit local de France, François Narmon, who is also chairman of Crédit Communal de Belgique, Rembert von Lowis,



Vanzeveren. The consortium committee determines the group's main objectives in terms of profitability and development, financial communications, and audit. Currently, Dexia is one of the top 25 banks of its kind in Europe, with some 12,000 employees.

THE FINANCING OF PUBLIC SERVICE FACILITIES

As early as a year after its creation, Dexia expanded out of its original

and began offering similar financial services throughout Europe. Through Dexia Public & Project Finance International Bank, it now operates in most European countries, including Germany, the United Kingdom, Italy, Spain, Sweden, and Portugal. It also has operations in France through equity interests in a local bank. There are branches of Dexia in Belgium and Crédit Communal de Belgique in New York. Dexia's reach is worldwide, but for the moment, the focus is Europe where it claims a 15% share of the region's highly-specialized public sector financing. This puts it in a unique position to help clients chart a course around the new currency, and ensure its own growth. Chairman Pierre Richard and François Narmon predict that Dexia will have at least a 10% market share in public sector financing in the European market where it is present. In its home markets, France and Belgium, it dominates the sector with a 42% and 93% market share, respectively. In Spain it has a 40% market share, the result of the recent takeover of 40% of the Banco de Crédito Local, with which the local bank will be merged.

BANKING

Crédit Communal de Belgique and Banque Internationale à Luxembourg are the second core business of the Group. They offer a wide range of traditional banking products and services through more than 1,000 branches around Belgium and Luxembourg. They both serve more than 10 million customers. Bank insurance is another area that has been targeted for growth. Therefore, the group will soon acquire the Communauté de Pensions de la SMAP in Belgium, "making it the main group insurance in Belgium," explains François Narmon. "This takeover will also enable the Dexia Group to broaden the range of the financial services it offers local government clients to include insurance products."



PRIVATE BANKING AND ASSET MANAGEMENT

Among the other services it has targeted for expansion are private banking and asset management which are the third core business activities offered by Banque Internationale à Luxembourg and Crédit Communal de Belgique. Dexia has also recently created a subsidiary, Dexia Asset Management, called Dexiam, which specializes in institutional investing, notably pension funds.

"Here, we have set the ambitious goal of tripling what we are currently managing, bringing it to a total of \$50 billion (€58 billion) by the year 2001," explains François Narmon. "This will be through acquisitions, like the recent takeover of BIMP (Banque Industrielle et Mobilier Privée) and UBS Asset Management in France, or the creation of off-shore funds."

"Asset management, particularly for the private clientele, is a highly profitable, low-risk activity," François Narmon adds. "It is a strong growth area in which we intend to play a significant role."



A GROWTH STRATEGY

Numerous acquisitions over the past two years are testimony to Dexia's successful strategy for growth. As of June, 1998, net profits were €350.8 million (\$302.4 million), up 10.5% over the previous year. Compared to June, 1997, profits are up by 30%. As of June, 1998, shareholder equity stood at €6.14 billion (\$5.29 billion), total assets were €187 billion (\$161.2 billion); outstanding loans totaled €99.7 billion (\$86 billion); and total customer deposits were €70.9 billion (\$61.1 billion). Return on equity stood at 14.2%, up from 11.9% as of December, 1997.

Such successes have been based on specialization, but Dexia's plan for the future is to become more of a general banking group, offering a wide range of services to its customers.

"We may be specialized in the public-sector financing but clients today are very demanding and banks must be able to offer a wide variety of financial services," Pierre Richard notes.

Some 85% of Dexia's activities are centered in Europe, with Europe and the United States accounting for 95% of all activities. It has a low profile in emerging markets, preferring instead to concentrate on regions with more certain growth potential. Such clear, narrow targeting is a strategy that has worked well for the group.

"Since its creation, Dexia has generated significant and regular growth," Pierre Richard says. "We plan to continue on that track and we face the future with serenity."

EDITED BY
AMY DUNKIN

Guarding Your Laptop —And Its Secrets

Too bad your attention is focused on catching a plane, because you're about to become a crime victim. At the airport security checkpoint, you place your notebook PC on the X-ray conveyor belt. As you're about to walk through the metal detector, a rude passenger jumps in front of you and triggers the alarm. You fume while the person fiddles with her jewelry, fumbles with her change, and makes a fuss. While your attention is diverted, her accomplice who has already passed through security, snatches your laptop.

THE MOBILE EXECUTIVE



SECURITY

This all-too-common scam shows how vulnerable you are when you're carting around valuable computer gear. Next to viruses, laptop theft was the most prevalent computer crime in 1998,

according to the 520 security practitioners at companies, universities, and government agencies who responded to a Computer Security Institute (CSI) and FBI survey.

Portable PCs are easy targets for thieves out to make a quick buck. But what's inside the laptop can be worth much more. Is an industrial spy after the secrets contained on your hard drive? "I can get \$3,000 for a top-of-the line laptop," says John Kauza, a security vice-president at AT&T. "But I can get a million to a million-and-a-half dollars for your marketing plans."

This doesn't have to happen. To minimize the chances your laptop or its contents will fall into the wrong hands, there are plenty of measures you can take—from something as simple as buying a lock to installing sophisticated software that scrambles your data so others can't read it.

Many safeguards come under the heading of common sense. For instance, to avoid the airport scam, don't place your laptop on the belt until you're sure no one can cut in front of you. Alert the security people that it's your machine. On the other side, says John O'Leary, director of education at CSI.

Don't drop your guard after you've gotten through security, either. Never leave your computer unattended, even if the chummy fellow sitting next to you says he'll watch it while you grab a hot dog. "If you have sensitive information that would do the company harm, you need to have some level of paranoia," says Bob Kee, director of corporate information security at Hartford Financial Services Group.

FOOLPROOF? Another tip: Hide your PC in a case that doesn't resemble a laptop carrying case. And foolish as it seems, some people stick it notes with passwords or phone numbers to access corporate networks on the machine or in the case. Don't store passwords on your hard drive. If you leave the computer in a hotel, lock it. Otherwise, an intruder could copy the contents of your hard drive. You may want to remove the hard drive, if you can, and take it with you.

Invest in a lock such as Kensington Technology's Notebook MicroSaver Security System (www.kensington.com). It's a six-foot steel cable and key lock that fits into a slot built into most laptops. You loop the cable around a door handle or other immovable object, as you would with a bicycle cable.

On some occasions, a piercing alarm may be warranted. Port's \$50 Defcon 1 Motion Detector (800-451-1111)

Safe Travel with Your PC

- ▶ Never let a laptop out of your sight in an airport or other public area.
- ▶ Attach permanent labels with your name, company name, and office phone number.
- ▶ Never keep passwords or access phone numbers on the machine or in the case.
- ▶ In hotel rooms, use cable locks to attach laptops to stationary furniture, or store the machine in a safe.
- ▶ At the airport, don't check your laptop with your luggage.
- ▶ Don't store a laptop in the overhead compartment of a plane.
- ▶ Back up your data frequently. If you do it on floppies, don't store them in the laptop case.
- ▶ Encrypt all confidential files and E-mail.



into an indecipherable code. PGP For Personal Privacy (\$40) from Network Associates and RSA SecurPC (\$59) from RSA Data Security are leaders in the field. Symantech's \$90 Norton Your Eyes Only encryption software also prevents interlopers from booting up into Windows 95 systems without knowing a password, even if they use a floppy disk. Be aware that because of U.S. laws, you cannot export files with strong encryption without special permission. Security always involves a trade-off between the level of

Security always involves a trade-off between the level of protection you choose and convenience

protection you choose and convenience. Longer passwords are more secure but harder to remember. Hewlett-Packard and IBM have unveiled \$199 security kits based on smart cards whose readers fit into a type II PCMCIA slot on a notebook. The systems can prevent access to the computer and encrypt and decrypt data. But each time you need the PCMCIA slot for another purpose, you must deactivate the programs and pull out the readers.

You might be able to recover a purloined PC if you sign up with the Stolen Computer Registry (www.nacomex.com). Enter the make, model, and serial number of the unit on the free Web database. A reseller or police officer might find your PC listed on the site and return it to you. Only 1% of PCs have been retrieved since the database went up on the Web three years ago.

You might stand a better chance with The CyberAngel from Computer Sentry Software (www.sentryinc.com) or CompuTrace from Absolute Software (www.computrace.com). As soon as someone connects your stolen computer to a phone line, your modem will silently dial a central monitoring service that can trace the call. CyberAngel, which charges \$75 the first year and \$50 for each following year, would fax or E-mail you an alert, then lock off the communications port to the laptop's modem. CompuTrace costs \$90 the first year and \$60 thereafter. You must notify the company that your PC has been stolen and present a theft report. The company then helps police hunt for your machine.

Your own negligence can do as much damage as a thief. To avoid losing critical data, you need to back up your hard drive religiously, say experts. You can carry floppies or back up data via the Web. When you have custody of your company's secrets, remember that the weakest link in any security system is you. *Edward C. Baig*

HELP DESK

EASY BACK-UPS

■ You can back up data via the Web using services such as U S West e-Backup (\$19.95 a month from www.uswest.com/ebackup). It stores and encrypts files on a remote server and lets you schedule automatic scans of your hard drive each time you log off Windows or on particular days. To retrieve files, punch in a password and download them. If you need multiple files, you can get a CD ROM sent overnight at an additional cost.

ttaches to your carrying case with a combination lock and goes off when someone tries to machine without knowing the combination. The TrackIt Portable Anti-Theft System (\$8 487-2251 or www.trackitcorp.com) has a radio receiver that attaches to your and a transmitter that hooks on to your in. If your PC is more than 40 feet away, a siren goes off.

Alarms may stymie common thieves, but need something more bulletproof if a rival confidential files. So companies such as and Detroit Edison require certain em- to carry SecurID tokens in the form of cards or keychain readers from Security Dynamics (www.securitydynamics.com). To get corporate network, you first enter a PIN or password, then type an electronic that is displayed on the SecurID token. The changes about every minute. A control at the network recognizes the code in ation with your PIN. Many companies are g on retina, voice, or fingerprint scanners ent unauthorized users from accessing a k or your laptop. But biometric schemes hit prime time yet.

best way to keep unwanted eyes from ata is to encrypt it using heavy-duty atical algorithms that scramble your files

Bantamweights That Pack a Punch

I judge laptops by the size of the bruise they leave on my shoulder. That's why I give high grades to the latest crop of lightweight, ultrathin notebooks. I was actually able to lug home four of these minimarvels at once without great discomfort.

Sony set the standard for thin computing last summer

THE MOBILE EXECUTIVE



LAPTOPS

with its less-than-an-inch-thick Vaio 505. It has a footprint roughly the size of this magazine. I examined the latest Vaio 505TX, a 2.7-pounder that's

0.9 inches high, along with three others: Hewlett-Packard's OmniBook 900, IBM's ThinkPad 560Z, and the Toshiba Portégé 3015CT. For comparison, I also checked out a notebook in a slightly

heavier weight class, the 5.2-pound Gateway Solo 3100 FireAnt, selling for \$3,199. You'll feel the extra poundage, but the FireAnt contains a digital videodisk (DVD) player that lets you watch movies on its lovely, 12.1-inch active-matrix display. You may not get two hours out of its lithium ion battery, so carry an 0.9-pound spare to watch a complete flick on an airplane.

VERY CHIC. I had quibbles with each of the machines reviewed here, but for my computing needs—mainly writing and connecting to the Net—they do just fine. For those who view stylish laptops as trophies akin to sporty automobiles, all the ultrathins, and especially the purple Sony, registered high on the chic meter.

To be sure, the most diminutive notebooks force you to make trade-offs. Their battery life is so-so, they lack built-in floppy or CD-ROM drives, and the smallest models from Sony and Toshiba have cramped keyboards. These two make you connect a separate, half-pound gizmo called a

port replicator if you plan to hook up a printer or serial device. All the ultrathins gain weight if you want to hook them up to an external hard drive or CD-ROM drive.

Until recently, the smallest machines didn't run the fastest processors either. But on Jan. 10, Intel introduced a new line of speedy processors earmarked for ultrathins. They will let you do things faster and conserve power. The most powerful of these new mobile chips, the Pentium II running at 366 MHz, is inside the HP OmniBook 900. The model includes a generous 6.4-gigabyte removable hard drive and a splendid 12.1-inch screen. It's lighter than the Vaio and Portégé but lighter than the ThinkPad.

Like the IBM entry, the ThinkPad doesn't need a port replicator for printing and other tasks.

Its power adapter and connector are just under a pound to your laptop's eling weight, and despite its small size, the HP machine can accommodate external CD-ROMs and other accessories that fit into the slim notebooks in the OmniBook series. It was also the machine I tested that had a point eraser-head pointing device.

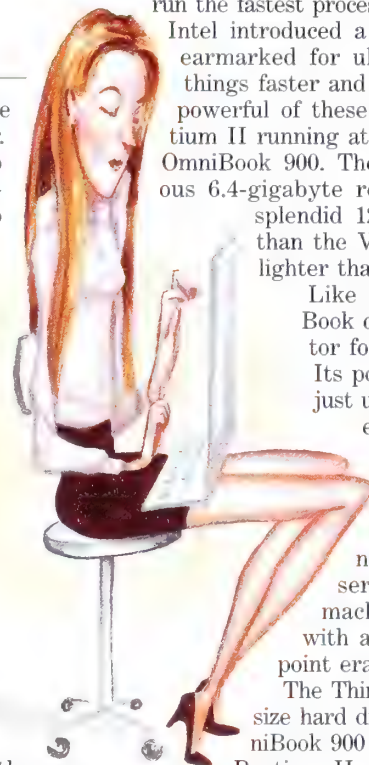
The ThinkPad 560Z boasts the same size hard drive and screen as the OmniBook 900 but has a slower, 300-MHz Pentium II processor. But I've

been a fan of the ThinkPad's screen and keyboard since this one measured up nicely.

Not so the Gateway Solo 3100 FireAnt. Its boards on the 505TX and Portégé 3015CT take getting up to speed, but given the bantam weight of these machines, I'd be willing to make the sacrifice. I prefer the way the keys laid out on

Sony—on the Portégé, I repeatedly hit the "backspace" key instead of "backspace." But I also prefer the eraser-head-type pointing device on the HP to the TouchPad on the Vaio. Both machines have bright 10.4-inch screens, but the Vaio has a faster processor and bigger hard drive than the Toshiba, though Toshiba is expected to close the gap soon with an upgraded version of the 3015CT.

The Sony features a digital interface port that will make it easy to capture and edit stills with a digital videocamera. Given Vaio's weight advantage, I can probably stow it and a videocamera in a bag and still feel no pain. *Edward*



Laptops on a Diet

UNIT	PROCESSOR	PRICE	WEIGHT POUNDS
SONY VAIO 505TX	Pentium MMX, 300 MHz	\$2,500	2.7
TOSHIBA PORTEGE 3015CT	Pentium MMX, 266 MHz	1,799	2.9
HEWLETT-PACKARD OMNIBOOK 900	Pentium II, 366 MHz	3,200- 3,500	4.0
IBM THINKPAD 560Z	Pentium II, 233 MHz	2,500- 2,700	4.1

HELP DESK

THE NET IN YOUR PALM

■ If you can't exist without the Internet, the Palm VII organizer from 3Com (www.3com.com) is for you. This descendant of the popular Palm Pilot fits in a shirt pocket and will let you send and get messages, check airline schedules, and even trade stock via its wireless connection to the Web and intranet sites. It's due out later this year for less than \$800.

INTERNET BUSINESS DIRECTORY

These Business Week advertisers on the Web:

m.com
 ia.com
 l.com
 Century
 rican Century.com
 rican Institute
 icts
 nline.com
 Isuzu Motors Inc.
 l.com
 Power Conversion
 .com
 hemical
 ochem.com
 Consulting
 m
 m
 Pacific
 com
 ftware
 n.com
 lercorp.com/
 com
 Group
 up.com
 z.com
 portation Inc.
 m
 isco.com
 aq.com
 e Corporation
 aware.com
 Dale Carnegie Training
 www.dale-carnegie.com
 Dell Computer
 www.dell.com
 Deloitte & Touche
 Consulting Group
 www.dtcg.com
 Diners Club International
 www.dinersclub.com
 EMC
 www.emc.com
 Equitable/AXA
 www.equitable.com
 Ericsson
 www.ericsson.se
 E*TRADE
 www.etrade.com
 Federal Express
 www.fedex.com
 FlexiInternational Software
 www.flexi.com
 Ford
 www.ford.com/
 FTD
 www.ftd.com
 Fujitsu
 www.fujitsu.com
 General Motors
 www.gm.com
 GTE
 www.gte.com
 Hewlett-Packard
 www.hp.com
 Honda
 www.honda.com
 Hyatt Hotels Corporation
 www.hyatt.com
 IBM
 www.ibm.com
 Infiniti
 www.infiniti-usa.com

Intelliguard
 www.iguard.com
 International Paper
 www.ipaper.com
 Iomega
 www.iomega.com
 Iowa Department of
 Economic Development
 www.smart.state.ia.us
 J.D. Edwards & Company
 www.jdedwards.com
 Lawson Software
 www.Lawson.com
 Lexus
 www.lexus.com
 Lincoln
 www.lincolnvehicles.com
 Lotus
 www.lotus.com
 Lucent Technologies
 www.lucent.com
 MCI
 www.mci.com
 Mercedes-Benz
 www.MBUSA.com
 Mercury
 www.mercuryvehicles.com
 Merrill Lynch
 www.ml.com/
 Microsoft
 www.microsoft.com/
 Mississippi Department of
 Economic & Community
 Development
 www.mississippi.org
 Mitsubishi Electric
 www.mitsubishielectric.com
 Mitsubishi Electronics
 America, Inc./Electronic
 Device Group
 www.mitsubishichips.com
 MOVADO
 The Museum Watch
 www.movado.com
 NTT Corp.
 http://info.ntt.co.jp/global
 National Business Aviation
 Association, Inc.
 www.nbaa.org/why
 National Computer Systems
 Pte Ltd.
 www.ncs.sg

Nationwide Financial
 Services-The BEST of
 AMERICA
 www.bestofamerica.com
 Netscape
 www.netscape.com
 Nortel
 www.nortel.com
 Northwest Airlines
 www.nwa.com
 Novell
 www.novell.com
 PeopleSoft
 www.peoplesoft.com
 Phillips Petroleum
 Corporation
 www.phillips66.com
 Praxair
 www.praxair.com
 The Principal Financial
 Group
 www.principal.com
 The Prudential Insurance
 Company of America
 www.prudential.com
 QAD Inc.
 www.QAD.com
 Roberts Express, Inc.
 www.roberts.com
 SAS Institute
 www.sas.com/
 Savin
 www.sales@savin.com
 Charles Schwab
 www.schwab.com
 Seagate
 www.seagate.com
 Siemens Corporation
 www.usa.siemens.com
 Siemens Microelectronics
 www.smi.siemens.com
 Silicon Graphics, Inc.
 www.sgi.com/go/visual
 Sprint
 www.sprint.com

Star Alliance
 www.star-alliance.com
 Sun Microsystems
 www.sun.com
 Symbios Logic
 www.symbios.com/bw.htm
 Tektronix
 www.coloratwork.com
 Teligent, Inc.
 www.teligent.com
 TIBCO
 www.tibco.com
 Toshiba America
 Information Systems
 www.computers.toshiba.com
 Toyota in America
 www.toyota.com/usa
 Toyota Motors
 www.toyota.com
 T. Rowe Price
 www.troweprice.com
 United Technologies
 www.utc.com
 UBS
 www.ubs.com
 UPS
 www.ups.com
 USPS
 www.usps.com
 UUNET Technologies
 www.uu.net
 Visio
 www.visio.com/standard
 Vivendi
 www.vivendi.com
 Williams Communications
 Group
 www.willtales.com
 World Mastercard
 www.mastercard.com
 Xerox
 www.xerox.com
 Zurich Financial Services
 www.zurich.com

BusinessWeek

www.businessweek.com

First Union Bank
 Increased profits
 \$10 million...
 in a single month

Get the whole story at

www.sas.com/bw/profits



SAS
 SAS Institute Inc.

SAS is a registered trademark of SAS Institute Inc.

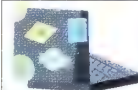
Scoping Out Stocks For A World on the Go

Mobile computing isn't just for road warriors. For investors, mobility is a tantalizing theme, offering a multitude of stocks to watch. Mobile computing is one of the fastest-growing areas in high tech. Market researcher Dataquest estimates that U.S. sales of handheld computers alone will increase 63% over the next two years, from 1.7 million to 2.7 million units. Dataquest figures U.S. unit sales of all mo-

up 5% this year through Feb. 1. Elijah likes the long-term outlook for both companies suggests buying on dips.

High valuations are just one reason investors should be cautious. These shares can be volatile. Sometimes even powerful growth doesn't work well. Nokia dropped sharply on Feb. 1 because of its 66% increase in 1998 profits, reported last week. It didn't beat analyst's expectations by enough. **OUTDOOR FAVORITES.** Merrill Lynch analyst Thomas Watts favors a company focused on mobile executives who need help to get where they're going. That outfit is Orbital Sciences.

THE MOBILE EXECUTIVE



INVESTING

maker of global positioning satellite devices. Hertz is installing them in rental cars, and low-cost versions of Orbital's Magellan GPS devices are popular with hikers and boaters. Watts thinks Orbital's profits will grow 19% this year, but could rise faster if carmakers demand the technology standard equipment.

Two other promising companies make conductor chips for mobile devices. Charles W. Harris, manager of the T. Rowe Price Science & Technology fund, likes Analog Devices and Maxim Integrated Products. Chips they produce for handheld computers and portable phones among their fastest-selling products. Analog's profits are expected to grow 15% this year, near its 52-week high. Maxim's fiscal 1999 profits are only expected to increase 12%, but revenues have been soaring, and its stock is up 10% to \$48, since October's market crash.

Texas Instruments is a major supplier of conductor chips to the mobile computing industry. Last year it restructured its huge chip operation to focus on digital signal processors, which are critical components in mobile devices such as cell phones. Merrill Lynch chip analyst Thomas Kurlak estimates that Texas Instruments' phone business grew 60% last year. On Jan. 20 he raised his 1999 profit estimate to \$2.60 per share, from \$2.30. The new estimate would put Texas Instruments' growth this year at 150%.

No mutual funds focus exclusively on mobile computing. But some funds have big holdings in the technology sector. PIMCO's Innovation Fund and Fidelity's Select Technology both had Texas Instruments among their top 10 holdings. Select Technology also listed Texas Instruments among its top 10. So the next time you buy mobile computing stocks, examine it closely. You may find a great investment inside. *Geoffrey...*

bile computing devices, including laptops, will grow 25% in two years.

While few companies focus exclusively on mobile computing, some leading industry suppliers stand to benefit from its rapid growth. 3Com and Nokia are both potential winners, says Ronald Elijah, manager of Robertson Stephens Information Age fund. Elijah, whose mutual fund posted a 52% total return last year, thinks 3Com's soon-to-be introduced Palm VII organizer, with its wireless Internet connection, will ignite a new round of growth of handheld devices. He also likes prospects for the Nokia 9000, a mobile phone with Internet access.

Neither stock is cheap (table). 3Com recently

Mobile Computing Plays

COMPANY	STOCK PRICE*	P/E**	COMMENT
ANALOG DEVICES	\$29	28	Makes chips for mobile devices
HUGHES ELECTRONICS	47	75	Satellites support mobile communications
MAXIM INTEGRATED	48	37	Specialty chips for mobile computing
NOKIA	137	38	Leader in multimedia portable phones
TEXAS INSTRUMENTS	95	33	DSP chips widely used in mobile devices
3COM	47	33	Palm VII with wireless Net link due soon

*Feb.

**Estimated 1999 earnings DATA: BLOOMBERG FINANCIAL MARKETS, BUSINESS WEEK



THE INNOVATION CORPORATION:

The Power of New Ideas

ITED IN
ATION WITH

Hewlett-Packard
Company

DIRECTED BY

PEAT MARWICK LLP

SOFTWARE

TECHNOLOGIES, INC.

STEMHOUSE

PE COMMUNICATIONS
ATION

ETEK

CORPORATION

SUPPORT FROM

COUNTY VIRGINIA
IC DEVELOPMENT
TY

N EXECUTIVE
ON

No one minded when author **Don Tapscott** likened the new digital economy to the wild, wild West. The several hundred senior executives in attendance at BUSINESS WEEK'S THIRD ANNUAL CONFERENCE ON THE DIGITAL ECONOMY, held in San Francisco, December 2-3, 1998 knew better than most that the Internet had spawned a business environment as chaotic and fraught with risk as any frontier ever was.

"This is your standard door-number-one and door-number-two situation," Tapscott, author, most recently of the *Blueprint to the Digital Economy: Creating Wealth in the Era of E-Business*, told the crowd. "Door number one is called the status quo, and companies that take that route, the future is going to be bleak. Door number two is a different route. It's an understanding that we have a new infrastructure that can enable new business models, the creation of wealth in different ways, which will be at the heart of national competitiveness, and which probably will call into question the nation/state itself."

Sound dramatic? It is. With Internet bandwidth doubling in size every three months and thousands of new users logging on each day, the Digital Revolution is well under way. The computer has become a powerful new communications medium and is extending itself throughout the economy. In order to survive, businesses must adapt

or die. The conference, titled "*The Innovation Corporation*," gathered leading thinkers on the topic to hammer out solutions.

Public Infrastructure

Central to the task of creating a platform for such endeavors is the idea of a public information utility – a far-reaching, all encompassing public utility for information and knowledge as ubiquitous as water, gas, and electric utilities are today. The information utility is on the way now, many speakers told the conference. The Internet and the Web were but the first step.

"What if we could expand our business by aggregating services that are provided by other companies that are using the information utility?" **Lewis E. Platt**, chairman, president, and CEO of Hewlett-Packard Company, posed to conference attendees. "The nice thing about the utility model of computing as it emerges is that information and services will be device, location, and user-independent. We think it's going to do for services, such as computing power, billing, commerce, and other services, what the web has already done for data. Basically it is going to provide universal access to services. Best of all, these things are available today," he said. Or are just around the corner. The savings for a company like HP are enormous, he added, pointing

"The nice thing about the utility model of computing as it emerges is that information and services will be device, location, and user-independent." – LEWIS E. PLATT,

chairman, president, and CEO, Hewlett-Packard Company



by Julie Tilsner

out that early implementations of this nascent utility computing model are already allowing HP to harness untapped capability, improve its internal processes greatly, partner more quickly, and increase the value of its legacy systems.

Managing the New Economy

Among the key concerns at this year's conference was how and whether to adapt management styles to adjust to a digital economy. At the end of the day, there was no question. "The challenge that each of us faces as we think about the management imperatives for the next millennium is how each of our businesses is going to change its management style," **Sheldon Laube**, executive vice-president and CTO for USWeb Corporation told the conference audience. "Clearly for many of us, the business strategies we've deployed in the past, of top-down planning, of command



"...the business strategies we've deployed in the past...cannot work in a world in which unpredictable change is the daily bread of our businesses need." — **SHELDON LAUBE**,

executive vice-president and CTO, USWeb Corporation

and control, cannot work in a world in which unpredictable change is the daily bread that our businesses need."

Adapt or die, indeed. Fortunately, as conference participants learned, classic-style management skills can translate neatly into new-world business models. **Meg Whitman**, president and CEO of eBay Inc., the on-line auction company, comes out of traditional retail, including high-level posts at Walt Disney Company, StrideRite, and Hasbro.

"The vast majority of my experience is relevant, because it's about building an organization, setting a

strategy, hiring people, motivating an organization, and trying to keep focused." The challenges for companies like eBay and other digital age enterprises is to choose wisely from the trough of opportunity. "What you choose to pursue is a critical decision," she said.

It's not only the Internet strategy that is embracing new management models. **Melvin Cohen**, research effectiveness vice-president, Bell Laboratories, Lucent Technologies, Inc., elaborates on how his firm has nurtured creative excellence: "We increasingly work in ways that cause the formation of teams in the game, of cross-functional teams involving research people. Some of the people who have created some of the most wonderful research elements, now become leaders of teams with product management people, with marketing people," he said.

The bottom line is that the top-down, hierarchically integrated management style is a thing of the past. CIOs must create strategies that allow the company to exploit the coming information utility. "The extended enterprise has a lot of advantages, from a business point of view,"



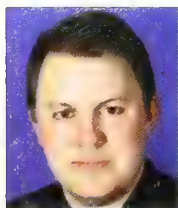
MEG WHITMAN
president and CEO
eBay Inc.

"The most significant returns on Internet investments are from efforts that make way for a clear line-of-sight through the enterprise-to-enterprise supply chain and on to the customer."

— **RODERICK C. McGEARY**, vice-chairman, KPMG Consulting



YOU'VE GOT MERGER



MARC ANDREESSEN
co-founder and
executive vice-
president, Netscape
Communications
Corporation

How does one manage in a world that's moving this fast? It's a good question and relevant to most every attendee at THE THIRD ANNUAL BUSINESS WEEK CONFERENCE ON THE DIGITAL ECONOMY. But the query had special meaning to **Marc Andreessen**, co-founder and executive vice-president of Netscape, which, just the week before had been acquired in a \$4.21 billion, all-stock buyout by America Online.

Although some industry watchers questioned merging Netscape's aggressive technology with AOL, which is known more for its ubiquitous brand name than its technological prowess, the synergy does exist. Both are Best of Breed companies.

"It's a really big deal to be #1, it's a really big deal to be on the winning team and to be in a real leadership position in the industry," Andreessen told the conference audience. "There's an aspect of this deal in terms of making the combined AOL/Netscape company be number one in a whole series of very important areas now that is

highly attractive." A key part of the merger was for the creation of a new generation of Internet devices that will enable AOL to deliver its services anywhere.

Andreessen thinks the merger will only strengthen Netscape's technical reputation. The combination of AOL and Netscape is going to be competing with General Electric and with Disney, and with Yahoo and with eBay, and with a whole bunch of media companies and start-ups all over the place, said Andreessen. The business that AOL is in today is intensely competitive.



"Information is the rocket fuel of the new economy. Immediate access to status data translates into advantage."

— **MELVIN COHEN**,
research effectiveness
vice-president, Bell
Laboratories, Lucent Technologies



Y-As-You-Go INTERNET: COMING SOON?



If it seems like the Digital Revolution is moving ahead at break-neck speed, hold onto your hats. It's about to get a lot faster, according to Information Age guru **Bob Metcalfe**. Metcalfe, vice-president of technology, IDG and all-around Internet evangelist, was the featured luncheon speaker at THE THIRD ANNUAL BUSINESS WEEK CONFERENCE ON THE DIGITAL ECONOMY. He treated conference participants to his enlightened yet sometimes contrarian view of where the Digital Revolution is headed next.

"We don't have just one next-generation Internet, we have many, many next-generation Internets, none of which does us the favor of happening one after the other," he said. They're all happening simultaneously. The next generation Internet is the direct access Internet. What we need is continuous, multi-megabit direct packet access to the Internet, not what we're getting today through modems. "Modems," he said, "are an abomination. The LAN and WAN are progressing rapidly, but the access methods are lagging."

Y-as-you-go Internet will have to be established, insists Metcalfe, if E-commerce is to move forward. The Digital Economy will not progress at the rate that you want unless this particular infrastructure problem gets solved. "We'll have to see metered usage," he said. "It will happen because users will eventually get tired of subsidizing heavy users. It will happen because we need to deter waste. We need to create markets, and we need to allow supply and demand to communicate. We need return on investment for new services and development of new capabilities," he said.

People are about communities. And in this web world, the next laws and principles will all be about how quickly you can build those communities." – ERIC SCHMIDT,

chairman and CEO, Novell, Inc.



Marvin C. Richardson, vice-president and CTO of MCI Systemhouse. "It lets people do what they do best, it brings those people together in a value chain, and it enables a very productive information flow and flow of product. It requires a lot more communication among parties who are no longer part of one company. You have much more open with your customers, your partners, your suppliers, there are a lot of information."

Community Building

In the new economy, community building is important as never before. "The cost of building community is not essentially to zero," said **F. Moore**, founder and chairman of GeoPartners Research, said. "If we don't build a community around our businesses, someone else will go to build communities around

their businesses, and we're going to find ourselves locked out."

Or, put another way, it's all about selling and marketing. "It's an extraordinary phenomenon," said **Eric Schmidt**, chairman and CEO of Novell, Inc., said. "People are about communities. And in this web world, the next laws and principles will all be about how quickly you can build those communities. The way it will affect you will ultimately be because you exploit some new way of having a personal relationship with the business you are in and the people you interact with."



"The extended enterprise has a lot of advantages, from a business point of view."

– **MARVIN C. RICHARDSON**
vice-president and CTO,
MCI Systemhouse

More open lines of communication between businesses fuels the creation of business solutions adapted to fit the new digital economy.

"The old CFO spent a good portion of their time on the transaction systems," Lawson Software chairman and CEO **Bill Lawson** told the conference attendees. "But that role is taking a serious transformation today. Firms like Lawson are reacting to that change, in terms of the kinds of decision support mechanisms that executive management needs to make some of these strategic decisions and reinvent their companies."

Small, nimble Internet startups such as eBay can afford to learn as they go. They can create new strategies as soon as necessary to adapt to a constantly changing business landscape. How can mature companies hope to keep up? They can – if they have a strong vision of the future and the guts to go there.

"You have no idea of the power of legacy companies," said **Robert Lessin**, chairman and CEO of Wit Capital. "Anybody who presumes that these guys are brain-dead is going to make a costly mistake. Anyone who presumes it's easy to create a brand is thinking about 1995, not 1998."

A case in point is Visa, which enjoys a 53 percent market share in the non-virtual world, but is trying to figure out how to capture that in cyberspace. It's projecting a full 10 percent of its business will come from E-commerce in the next three to four years, said **Carl F. Pascarella**,

"Can mature companies keep up? They can – if they have a strong vision of the future and the guts to get there." – WILLIAM (BILL) LAWSON,

chairman and CEO, Lawson Software



"We don't want to be known as a product-centric company anymore; we want to be known as an information-centric company."

— **DAVID E. WEISS**, chairman, president, and CEO, StorageTek



JOHN W. SIDGMORE
vice-chairman,
MCI WorldCom, Inc.

president and CEO of Visa, U.S.A. "As we move into the E-business format, we have a lot to learn, but to us it's a blank slate," he said. "There is nothing today that is sacrosanct at Visa. We cannot operate the way we've operated before. We're a relationship product now."

StorageTek is another example of a company seizing its digital future. A data storage company in the midst of an information explosion, it runs the risk of choking on its own growth. Industry consultants predict that fully half the world's information will be digitized by 2003, compared with

only 15 percent today. StorageTek is prepared, said chairman, president, and CEO **David E. Weiss**.

"We could simply provide equipment to store it on, or we could help our customers organize it and use that data, and that's the vision we're approaching," he said. "We don't want to be known as a product-centric company anymore; we want to be known as an information-centric company."

Even telecommunications firms, the industry most alarmed by the changes brought on by the Internet, are rising to meet the challenge. "We believed that this Internet demand curve was going to overtake the industry at a frantic pace," said **John W. Sidgmore**, vice-chairman of MCI WorldCom, Inc. "We're betting the entire ranch on the Internet. And we know that the biggest changes are yet to come."

BUILDING A BETTER INTERNET



MARK CUBAN
president and
co-founder,
broadcast.com inc

Any discussion of Electronic Business Communities (EBCs) must include the question of how to build them, how to leverage them and ultimately, how to make them competition-proof. **Todd Wagner** and **Mark Cuban**, founders of broadcast.com, the leading communications outlet for streaming media over the Internet, weighed in on that topic to participants at THE THIRD ANNUAL BUSINESS WEEK CONFERENCE ON THE DIGITAL ECONOMY.

Broadcast.com aggregates content with a built-in community, such as much-followed local sports teams, foreign broadcasts of interest to multitudes of homesick ex-pats, or business-to-business corporate communications. It builds relationships with these content providers and locks them in with exclusive, multiyear contracts for Internet broadcast rights. In the meantime, it's built the underlying network to support that content, which has led to formidable barriers to entry for even deep-pocketed, legacy competitors. Thanks to this visionary groundwork, it's no longer an issue of a content provider going somewhere else to stream over the Internet, says co-founder and CEO Wagner.

"You've got to have an audience, and you've got to have the network to support it," he said. "No matter which competing broadcast or ISP company you name, we can say they don't have one or they don't have the other. We have the pieces, and if we do it right, we will work with all of those companies, and in some cases be their pipes and in other cases be their content provider."

There is a dramatic fragmentation of media occurring, said co-founder and president Cuban, and the owners of old-guard broadcast media companies may realize too late what's happening. "They don't know what's going to hit them," he said.

DIGITAL '98 POLL RESULTS

Results of anonymous polling of delegates at THE THIRD ANNUAL BUSINESS WEEK CONFERENCE ON THE DIGITAL ECONOMY. Each delegate had access to a keypad and was able to answer each of the questions asked during the conference.

New Internet-based competitors in my industry...

Yes, new Internet-based competitors have entered my marketplace.	6
No such new competitors.	3

The new Internet-based competitors in my industry...

Are a serious threat to established players.	5
Are young and inexperienced but could grow into real threats.	3
Are mostly publicity-seeking nuisances who will disappear.	5

AOL + Netscape...

Something really great	3
Something OK.	4
I don't think so.	1

There are two pay-as-you-go questions. We asked the first questions before Metcalfe spoke and again after his lunch address. Here are the results.

BEFORE: Would you pay-as-you-go while surfing the Net?

Yes	2
No	7

AFTER: Would you pay-as-you-go while surfing the Net?

Yes	5
No	4

In-hall polling provided by Meridia, Plymouth Meeting

Senior executives are invited to participate at THE FOURTH ANNUAL BUSINESS WEEK CONFERENCE ON THE DIGITAL ECONOMY. The 1999 gathering will occur December 1-2 at The Fairmont Hotel in San Francisco, California. For more information, call Business Week Executive Programs at 212-512-2184.

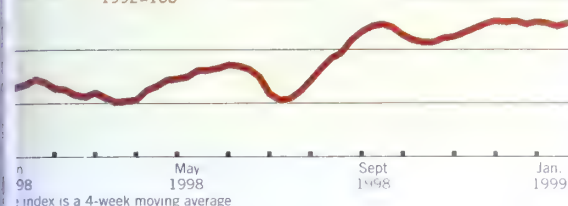
BusinessWeek
EXECUTIVE PROGRAM

Business Week Index

PRODUCTION INDEX

Change from last week: 0.2%
Change from last year: 3.8%

PRODUCTION INDEX
Jan. 23, 1999=142.4
1992=100



Production index increased during the week ended Jan. 23. The aged index rebounded to 143.0, a 1% advance over last week's figure 1.6. After seasonal adjustment, steel production soared 12.6%, with a utilization rate of 81.2%—the highest it has been since Oct. 24. More moderate increases were noted in the production of autos, trucks, lumber, and rail-freight traffic. Only electric-power output was down.

Source: Index copyright 1999 by The McGraw-Hill Companies

PRICING INDICATORS

	LATEST WEEK	WEEK AGO	YEARLY % CHG
PRICES (1/29) S&P 500	1279.64	1225.19	30.5
RATE BOND YIELD, Aaa (1/29)	6.16%	6.17%	-8.1
SUPPLY, M2 (1/18) billions	\$4,440.8	\$4,430.8r	9.1
CLAIMS, UNEMPLOYMENT (1/22) thous	301	316r	0.7
APPLICATIONS, PURCHASE (1/29)	272.9	278.3	7.5
APPLICATIONS, REFINANCE (1/29)	1,741.7	1,572.2	-14.6

S: Standard & Poor's, Moody's, Federal Reserve, Labor Dept., Mortgage Assn. (Index: March 16, 1990=100)

INTEREST RATES

	LATEST WEEK	WEEK AGO	YEAR AGO
BAL FUNDS (2/2)	4.56%	4.84%	5.47%
COMMERCIAL PAPER (2/2) 3-month	4.76	4.75	5.44
CERTIFICATES OF DEPOSIT (2/3) 3-month	4.88	4.86	5.54
MORTGAGE (1/29) 30-year	6.84	6.87	7.25
FIXED RATE MORTGAGE (1/29) one-year	5.68	5.70	5.73
ADJUSTABLE RATE MORTGAGE (1/29)	7.75	7.75	8.50

S: Federal Reserve, HSH Associates, Bloomberg Financial Markets

Data in the production indicators are seasonally adjusted in computing the BW index (chart); other components (estimated and not listed) include machinery and defense. 1=Western Wood Products Assn. 2=Southern Forest Products Assn. 3=Free market value NA=Not available r=revised NM=Not meaningful

THE WEEK AHEAD

ACTIVITY AND COSTS

Feb. 9, 10 a.m. EST ▶ Output per worker in the nonfarm business sector grew at a spectacular annual rate in the fourth quarter. That's the forecast of economists surveyed by D & P's MMS, a division of The Hill Companies. The highest forecasts for a 5% surge. Productivity rose at a 3% pace in the third quarter. Fourth quarter, only a modest rise in hours worked was needed to produce a jump in output in the nonfarm, slowing economy. The median production forecast about matches the expected rise in total compensation, suggesting that labor costs did not grow in the

fourth quarter. For all of 1998, nonfarm productivity likely climbed by about 2.5%, the biggest annual increase in six years.

RETAIL SALES

Thursday, Feb. 11, 8:30 a.m. EST ▶ The S&P MMS survey expects that retail sales edged up only 0.2% in January, after retailers posted a 0.9% jump in December receipts. Warm weather in early December enabled shoppers to get to shopping malls and restaurants, but it hurt sales of winter apparel. In addition, dealer incentives boosted purchases of motor vehicles by 2.6% in December. Real consumer spending increased a large 0.7% in December. But in January, car buying probably slowed,

and nonauto sales likely rose 0.4%, the same gain posted in December.

BUSINESS INVENTORIES

Friday, Feb. 12, 8:30 a.m. EST ▶ Inventories stored up by manufacturers, wholesalers, and retailers probably increased by 0.2% in December, half their advance in November. For the entire fourth quarter, the Commerce Dept. calculated that inventory accumulation slowed from its third-quarter pace. That was one of the few drags on real gross domestic product growth at the end of 1998. Business sales probably increased 0.4% in December, the same modest rise posted in November. Retail sales led the gain.

PRODUCTION INDICATORS

	LATEST WEEK	WEEK AGO	YEARLY % CHG
STEEL (1/30) thous. of net tons	2,011	2,002#	-9.3
AUTOS (1/30) units	125,942	102,651r#	6.0
TRUCKS (1/30) units	151,923	128,357r#	10.5
ELECTRIC POWER (1/30) millions of kilowatt-hrs.	64,258	63,563#	-0.4
CRUDE-OIL REFINING (1/30) thous. of bbl./day	14,223	14,175#	1.2
COAL (1/23) thous. of net tons	22,005#	21,397	-6.7
LUMBER (1/23) millions of ft.	502.0#	484.1	3.4
RAIL FREIGHT (1/23) billions of ton-miles	26.6#	25.6	-1.1

Sources: American Iron & Steel Institute, Ward's Automotive Reports, Edison Electric Institute, American Petroleum Institute, Energy Dept., WWP1, SFPA2, Association of American Railroads

PRICES

	LATEST WEEK	WEEK AGO	YEARLY % CHG
GOLD (2/3) \$/troy oz.	286.850	283.800	-3.8
STEEL SCRAP (2/2) #1 heavy, \$/ton	84.00	84.00	-42.3
COPPER (1/29) \$/lb.	68.0	69.2	-10.5
ALUMINUM (1/29) \$/lb.	59.0	59.3	-19.7
COTTON (1/29) strict low middling 1-1/16 in., \$/lb.	57.76	57.54	-7.3
OIL (2/2) \$/bbl.	12.04	11.86	25.4
CRB FOODSTUFFS (2/2) 1967=100	200.24	205.92	-11.9
CRB RAW INDUSTRIALS (2/2) 1967=100	262.14	262.80	-11.7

Sources: London Wednesday final setting, Chicago market, Metals Week, Memphis market, NYMEX, Commodity Research Bureau

FOREIGN EXCHANGE

	LATEST WEEK	WEEK AGO	YEAR AGO
BRAZILIAN REAL (2/3)	1.7800	1.9050	1.1237
BRITISH POUND (2/3)	1.64	1.65	1.66
CANADIAN DOLLAR (2/3)	1.51	1.52	1.45
EUROPEAN EURO (2/3)	1.1345	1.1454	NA
JAPANESE YEN (2/3)	112.34	115.75	123.70
KOREAN WON (2/3)	1170.0	1176.1	1608.0
MEXICAN PESO (2/3)	10.108	10.165	8.425
TRADE-WEIGHTED DOLLAR INDEX (2/3)	106.0	106.5	108.8

Sources: Major New York banks. Currencies expressed in units per U.S. dollar, except for British Pound and European Euro in dollars. Trade-weighted dollar via J.P. Morgan

This Week, Online

Business Week presents frequent live conferences and chats on America Online—your opportunity to ask questions about timely topics.

BusinessWeek **ONLINE**

Sunday

Like some government contracts for your business? Bill Binns and Randall Litchfield explain how BidLine can help you snare them. **Feb. 7 9 p.m. EST**

Tuesday

Those tech and telecom stocks are still in the spotlight, and Kevin Gooley of S&P Personal Wealth will share his favorites. **Feb. 9 4:30 p.m. EST**

Thursday

Jeffrey C. Hooke, author of *Security Analysis on Wall Street*, can tell you how to judge stocks on your own. **Feb. 11 9 p.m. EST**

AOL keyword: BW Talk

Transcripts of all conferences are available for downloading from the BW Online area on AOL soon after each event



For a free trial diskette including 50 free hours on AOL, call 1-800-641-4848 and mention Business Week.

Index to Companies

This index gives the starting page for a story or feature with a significant reference to a company. Most subsidiaries are indexed under their own names. Companies listed only in tables are not included.

A

ABC (DIS) 68
Absolute Software 110
Aeris 35
Advantage International 68
Aetna U.S. Healthcare 36, 47
AIG (AIG) 50
Allianz 50
Amazon.com (AMZN) 90, 92
American Express (AXP) 80
Ames Department Stores 30
Amway 6
Analog Devices (ADI) 114
Apollo Real Estate Advisors 44
Apple Computer (AAPL) 16, 80
Arco (ARC) 44
Aruba Technologies 90
Ascent Entertainment Group (GOAL) 68
Associates First Capital (AFS) 30
AT&T (T) 44, 110
AXA (AXA) 50

B

Banque National de Paris 50
Bear Stearns (BSC) 30
Bell Atlantic (BEL) 44
Benchmark Capital 90
Block Financial (HRB) 10
Boeing (BA) 34
Borders Group (BGP) 90
Boston Bruins 68
Brentwood Venture Capital 90
BT Alex. Brown (BT) 92

C

Capstar Broadcasting 58
CBS (CBS) 58
Chancellor Media (AMFM) 58, 68
Chevron (CHV) 44
Christina Yachting 6
Chuo Trust 48
Cisco Systems (CSCO) 44, 90
Citizen Watch 48
Classic Residence 40
Clear Channel Communications (CCU) 58
CNF Transportation 92
Cobalt Networks 35
Coca-Cola (KO) 80
Colorado Avalanche 68
Comcast (GOAL) 68
Commonwealth Associates 92
Compaq Computer (CPQ) 35, 75, 78, 90
Computer Associates (CA) 75
Computer Sentry Software 110
Credit Commercial de France 50
Credit Lyonnais 50
Critical Path 90

D

Dallas Stars 68
Dataquest 35, 114
Dawn 78
Decision Resources 36
Della's 88
Dell Computer (DELL) 35, 78
Deloitte & Touche 104
Denver Broncos 8
Detroit Edison (DIA) 110
Detroit Red Wings 58
Deutsche Bank 50
Dole Food (DOL) 8

Donaldson Lufkin & Jenrette (DLJ) 92
Dresdner Bank 50
DuPont (DD) 44

E

Eastman Kodak (EK) 30
eBay (EBAY) 90
E-LOAN 90
Encanto Networks 35
Equitable 50
ESPN 68
E*Trade Group (EGRP) 38

F

Federal Express (FDX) 92
Fidelity Select Technology Fund (FSPX) 114
First Call 30
First Health Group 40
Ford (F) 42

G

Gabelli Equity Fund 94
Gallop Toys (GAL) 60
Gap (GPS) 88
Gateway (GTW) 34, 112
G.D. Searle (MTC) 36
GE Capital (GE) 48, 122
General American Investors 94
General DataCom Industries 38
General Motors (GM) 27, 30, 42, 47, 80
Gerard Klauer Mattison 60
Gillette (G) 30
Golden Books Publishing 80
Goodyear (GT) 48
Great Wall Group 78
Guardian Royal Exchange 50
Gucci Group (GUC) 92

H

Hancock Bank & Thrift Opportunity Fund 94
Hancock Regional Bank Fund B 94
Hartford Financial (HIG) 110
Hasbro (HAS) 60
Heidrick & Struggles 6
Hertz (F) 114
Herzfeld (Thomas J.) 94
Hewlett Packard (HWP) 16, 34, 35, 75, 78, 110, 112
Hicks Muse Tate & Furst 58
Hilton Hotels (HLT) 44
Hogan & Hartson 47
Horsley Bridge Partners 90
Hotjobs.com 6
HSBC Securities 36
Hyatt 40

I

IBM (IBM) 16, 75, 78, 110, 112
Image Entertainment (DISK) 92
Infinity Broadcasting 58
Intel (INTC) 16, 75, 112
International Data 78
Intuit (INTU) 10
Invesco Global Health Sciences Fund 94
Israel Aircraft Industries 40
ITT Sheraton (ITT) 44

J

Japan Airlines 48

K

Kensington Technology 110
Kingsoft 75

Kleiner Perkins Caufield & Byers 90
Korean Investment Fund 94
Korn/Ferry International 6
KPMG Peat Marwick 104

L

Ladenburg Thalmann 80
LAI Ward Howell 6
Lanston (Aubrey G.) 30
Lee Apparel 80
Legend Holdings 75, 78
Lego Systems 60
Levi Strauss 80
Livent 104
Long-Term Capital Management 44
Lotus Development (IBM) 75
LVMH Moët Hennessy Louis Vuitton (LVMHY) 92

M

Major League Baseball 68
Marmon Holdings 40
Mattel (MAT) 60
Maxim Integrated (MXIM) 114
Mazda 42
MBNA (KRB) 68
McDonald's (MCD) 80
McGraw-Hill (MHP) 119
MCI WorldCom (WCOM) 44
Medtronic (MDT) 44
Merck (MRK) 36
Merrill Lynch (MER) 30, 48, 114
Microsoft (MSFT) 34, 35, 75, 90
Mighty Ducks of Anaheim 68
Mitsubishi 48
Mitsui Trust 48
Monsanto (MTC) 36
Monster.com 6
Moody's Investors Service (DNB) 48
Morningstar 94
Motorola (MOT) 80

N

Nashville Predators 68
NBA 68
Netscape Communications (NSCP) 34, 90
Network Appliances 35
Network Associates (NETA) 110
New Enterprise Associates 90
NFL 68
NHL 68
Nike (NKE) 68, 80
Nissan 48
Nokia 114
NorthPoint Communications 90
Northwest Airlines (NWA) 44
Northwestern Mutual Life 80
Novell (NOVL) 90

O

Oracle (ORCL) 75
Orbital Sciences (ORB) 114
Outdoor Systems 58

P

Packard Bell NEC 34
PaineWebber (PWJ) 44
Paribas 50
Parsons Technology 44
Patnot American Hospitality (PAH) 44
Paxnet 8
Penney (J.C.) (JCP) 80
PepsiCo (PEP) 80
Pfizer (PFE) 36
Philadelphia Flyers 68
Phoenix Coyotes 68
PIMCO (PA) 114
Pittsburgh Penguins 68
Port 110
Preferred Income Management Fund 94
Prismark Decision Economics 30

Q

QVS 92

R

Robertson Stephens Information Fund 114
Royal Philips Electronics
Royce Value Fund 94
Ryder System (R) 30

S

Salomon Smith Barney (SSB) 114
Schroder 42
Scient 90
Scudder New Europe Fund
Security Dynamics (SDII)
Sequoia Capital 90
SG Cowen 36
Sibnet 57
SmithKline Beecham (SEB) 114
Société Générale 50
Sony (SNE) 112
Sprint (FON) 30
Standard & Poor's (MHP) 119
St. Louis Blues 68
Stone Group 78
Strategic Hotel Capital
Sumitomo Rubber 48
Summerfield Hotel 44
Sunbeam (SOC) 6
Sunkist Growers 8
Sun Microsystems (SUN) 110
Symantec 110

T

Tavoca World Tours 17
Technicline 107
Teenage Research Unlimited Teijin 44
Tele-Communications (TLC) 110
Texas Instruments (TXN) 110
Texas Rangers 68
3Com (COMS) 16, 44, 78
Time Warner (TWX) 44
Titan Brokerage 6
Tontrou 78
Toshiba 78, 112
Toyota (TOYO) 48, 80
Toys 'R' Us (TOY) 60
Trackit 110
Transaero 57
T. Rowe Price Science & Technology Fund (PRSCX) 114
TSI Soccer 88
Tucker Anthony 60

U

United Healthcare (UNH) 110
Universal Studios 80
UPS 92
U.S.A. Floral Products
US West (USW) 110

V

VenFone (HWP) 44
Volkswagen 80
Volvo 42

W

Wal-Mart Stores (WMT) 110
Walt Disney (DIS) 44
Warner Bros. (TWX) 80
Wasserstein Perella Seligman
Wellpoint Health (WLP)
Wendy's International (WEN) 110
Winnipeg Jets 68
WSL Marketing 88
Wyndmay Hotel (WYN)

Y

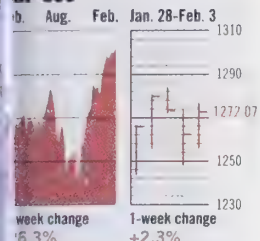
Yankelovich Partners
Young & Rubicam 80

Business Week (ISSN 0007-1226) is published weekly, except for two issues in January and one in August, by The McGraw-Hill Companies, Inc. Editorial, Circulation, and Advertising Offices: 1221 Avenue of the Americas, New York, N.Y. 10020. U.S. subscriber rate \$54.95/year; \$69/year. Periodicals postage paid at New York, N.Y., and at additional mailing offices. Postage paid at Montreal, P.Q. Canada Post International Mail Product Sales Agreement No. 246484. Postmaster: Send address changes to BUSINESS WEEK, P.O. Box 430, Hightstown, N.J. 08520.

Investment Figures of the Week

STOCKS

SP 500



COMMENTARY

See-saw week in the financial markets. The Standard & Poor's 500-stock index climbed to a new high on Jan. 29 and the NASDAQ Composite rose to a record on Feb. 1, with strong economic reports giving stocks a boost. Bonds, however, were shaken by the evidence of continued economic strength and gained their biggest drop on Feb. 1. Stocks declined on Feb. 2 and by computer stocks such as Microsoft Corp. and Intel Corp. But the stock market rebounded on Feb. 3, after the Federal Reserve left the federal funds rate unchanged.

U.S. MARKETS

	Latest	% change Week	% change Year
Dow Jones Industrials	9366.8	1.8	15.2
NASDAQ Combined Composite	2493.4	3.6	48.4
S&P MidCap 400	378.9	1.1	12.3
S&P SmallCap 600	172.7	0.3	-5.8
S&P SuperComposite 1500	267.2	2.2	23.8

SECTORS

	Latest	% change Week	% change Year
Bloomberg Information Age	536.4	3.6	67.5
S&P Financials	129.8	2.0	8.9
S&P Utilities	242.2	-2.6	7.0
PSE Technology	512.2	3.7	62.1

FOREIGN MARKETS

	Latest	% change Week	% change Year
London (FT-SE 100)	5940.3	1.1	6.2
Frankfurt (DAX)	5085.7	0.5	13.3
Tokyo (NIKKEI 225)	14,161.3	-2.0	-16.1
Hong Kong (Hang Seng)	9419.9	-3.1	-8.6
Toronto (TSE 300)	6721.5	1.0	-0.6
Mexico City (IPC)	4060.6	6.4	-15.2

FUNDAMENTALS

	Latest	Week ago	Year ago
S&P 500 Dividend Yield	1.25 %	1.26 %	1.53 %
S&P 500 P/E Ratio (Last 12 mos.)	33.6	32.6	25.6
S&P 500 P/E Ratio (Next 12 mos.)*	24.1	24.3	19.7
First Call Earnings Surprise*	4.04 %	4.44 %	2.23 %

TECHNICAL INDICATORS

	Latest	Week ago	Reading
S&P 500 200-day average	1120.2	1116.4	Positive
Stocks above 200-day average	34.0 %	35.0 %	Positive
Options: Put/call ratio	0.45	0.46	Negative
Insiders: Vickers Sell/buy ratio	1.39	1.43	Positive

Data: Bloomberg Financial Markets; *First Call Corp.

BEST-PERFORMING GROUPS

	Last month %	Last 12 months %
Semiconductors	25.0	Communications Equip. 115.5
Broadcasting	19.2	Specialty Appar. Retailers 104.8
Shoes	19.1	Computer Systems 96.5
Specialty Appar. Retailers	18.1	Broadcasting 82.7
Invest. Banking/Bkrgrs.	17.8	Genl. Merchandise Chains 81.1

WORST-PERFORMING GROUPS

	Last month %	Last 12 months %
Hospital Management	-23.1	Oil & Gas Drilling -51.6
Engineering & Constr.	-14.1	Metals -36.6
Tobacco	-12.7	Leisure Time -36.4
Specialty Printing	-11.9	Oil Exploration & Prod. -35.1
Property-Casual. Insurers	-11.6	Hospital Management -33.3

BLOOMBERG MONEY FLOW ANALYSIS

Rebound ahead? Stocks with most significant buying on price weakness

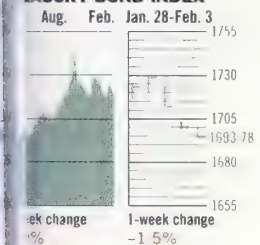
	Price	1-month change
IBM	176 3/4	-6 1/4
Lucent Technologies	110	-4 3/16
Telebras-ADR	73 3/4	-1 1/2
Exxon	68 11/16	-3 15/16
American Express	99 11/16	-1 13/16
Procter & Gamble	89 13/16	-3/16

Decline ahead? Stocks with most significant selling on price strength

	Price	1-month change
Microsoft	167 7/8	26 7/8
Cisco Systems	112 27/64	17 5/64
Intel	134 3/8	13 7/16
MCI WorldCom	78 15/16	9 1/16
Dell Computer	108 7/8	34 7/16
Sun Microsystems	106 1/16	16

INTEREST RATES

EASURY BOND INDEX



Data: Bloomberg Financial Markets

KEY RATES

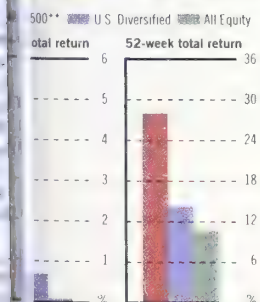
	Latest	Week ago	Year ago
MONEY MARKET FUNDS	4.63	4.66	5.18
90-DAY TREASURY BILLS	4.48	4.46	5.08
6-MONTH BANK CDS	4.36	4.36	5.10
1-YEAR TREASURY BILLS	4.57	4.49	5.22
10-YEAR TREASURY NOTES	4.84	4.67	5.55
30-YEAR TREASURY BONDS	5.26	5.13	5.86
LONG-TERM AA INDUSTRIALS	6.20	6.09	6.51
LONG-TERM BBB INDUSTRIALS	6.94	6.75	6.97
LONG-TERM AA TELEPHONES	6.43	6.35	6.89

BLOOMBERG MUNI YIELD EQUIVALENTS

Taxable equivalent yields on AAA-rated, tax-exempt municipal bonds, assuming a 31% federal tax rate.

	10-yr. bond Latest week	10-yr. bond Last week	30-yr. bond Latest week	30-yr. bond Last week
GENERAL OBLIGATIONS	4.07%	4.08	4.84%	4.82%
PERCENT OF TREASURIES	84.37	87.35	92.15	94.05
TAXABLE EQUIVALENT	5.90	5.91	7.01	6.99
INSURED REVENUE BONDS	4.23	4.23	5.10	5.09
PERCENT OF TREASURIES	87.69	90.56	97.10	99.32
TAXABLE EQUIVALENT	6.13	6.13	7.39	7.38

MUTUAL FUNDS



Data: Morningstar, Inc.

EQUITY FUNDS

Leaders	4-week total return	%	Laggards	4-week total return	%
Internet	45.5		ProFunds UltraShort OTC Inv.	-18.3	
IAI Value	37.4		Guinness Flgt. Maind. China	-17.8	
Munder NetNet A	32.3		Fidelity Sel. Medical Delivery	-15.8	
IAI Emerging Growth	30.7		Invesco Latin Amer Gr.	-15.3	
Van Wagoner Post-Venture	24.9		Ivy South America A	-14.7	
Leaders	52-week total return	%	Laggards	52-week total return	%
Internet	298.6		Lexington Troika Russia	-80.0	
ProFunds UltraOTC Inv.	192.2		American Heritage	-64.7	
Amerindo Technology D	151.4		Potomac OTC/Short	-55.6	
Grand Prix	141.5		State St. Res. Glob. Res. C	-52.2	
Dreyfus Technology Growth	112.6		Offitbank Latin Amer. Sel.	-50.8	

EQUITY FUND CATEGORIES

Leaders	4-week total return	%	Laggards	4-week total return	%
Technology	9.2		Latin America	-8.4	
Communications	8.0		Natural Resources	-5.3	
Japan	5.5		Pacific/Asia ex-Japan	-4.9	
Large-cap Growth	4.2		Diversified Emerging Mkts.	-3.5	
Mid-cap Growth	2.9		Real Estate	-3.1	
Leaders	52-week total return	%	Laggards	52-week total return	%
Technology	58.2		Latin America	-39.2	
Communications	54.1		Natural Resources	-26.0	
Large-cap Growth	37.5		Diversified Emerging Mkts.	-24.9	
Mid-cap Growth	21.1		Real Estate	-16.8	
	20.1		Precious Metals	-15.7	

A BETTER USE OF SURPLUSES

President Clinton will be remembered for many things, but in the economic arena, fiscal responsibility will top the list. When he took office in 1993, the federal budget deficit came in at \$255 billion, just off its high of \$290 billion in the previous year. The Congressional Budget Office was projecting deficits as far as the eye could see, with spending expected to exceed revenues by more than \$400 billion in 1999. Yet the fiscal 1999 surplus should total about \$107 billion, according to the CBO, which figures that the annual surpluses will keep growing, reaching \$381 billion by 2009. And the estimates could be low, since the CBO assumes inflation-adjusted growth of about 2% annually over the next two years and 2.3% thereafter. If growth is faster, the surpluses could be fatter. It's been a major accomplishment indeed to reach this state. Now, Clinton and his successor need to ensure that this budget and future ones promote economic growth. A single-minded focus on paying down the national debt isn't necessarily the right formula for the next decade.

The deficit reversed on Clinton's watch for three key reasons: higher tax rates were adopted, statutory caps on spending were enacted, and economic growth picked up while inflation and interest rates fell. In the 1980s, as deficit spending rose, the financial markets drove interest rates higher, which in turn raised the government's borrowing costs and further inflated the deficit. Recently, the process has been working in reverse: As spending was reined in and the deficit began to shrink, interest rates tumbled and borrowing costs fell. High-cost debt was replaced on the government's books by lower-cost debt, and that virtuous circle will continue as old debt is retired.

Now the debate is what to do with these surplus dollars. The Republicans want a tax cut right away, so Americans can get an immediate boost in earnings; the President, meanwhile, would have the federal government set aside about 80% of the annual surpluses to cover problems in Social Security and Medicare financing down the road.

Both approaches leave something to be desired. To be sure, over the long run U.S. growth would benefit from a cut in marginal personal and corporate tax rates. However, Federal Reserve Chairman Alan Greenspan recently pointed out, a tax cut at this time runs the danger of overheating the economy. Once growth returns to a more sustainable pace, a across-the-board cut in marginal rates deserves priority. Putting the better part of the surplus in a lockbox to help finance Social Security and Medicare in the future seems prudent—as does Clinton's suggestion that the government reduce national debt to levels that prevailed in 1917. It may make for good public relations but it doesn't necessarily make for good policy.

It's certainly prudent for President Clinton to worry about the solvency of the government's entitlement programs. Clinton's budget and surplus plans give a decided edge to the elderly and don't focus enough on the young. To help the economy build on its strengths, Washington should promote investment in human capital. Numerous economic studies have demonstrated that investment in people delivers higher returns than investment in physical capital. While there's still debate about which investments work best, everything from the Head Start program and early childhood education to adult training and retraining should get more attention than they do in Clinton's budget.

Then too, research and development deserve a boost. In the budget contains some modest initiatives. What's needed is a serious stimulant to basic research, which has been lagging in recent years. Without continued gains in education, training and new innovations and scientific findings—the materials of growth in the New Economy—the technological dynamic will stall. No question, belt-tightening has been good for the U.S. economy. Now the trick is to figure out how to parcel out the rewards of self-discipline in the most productive way possible for the economy.

FORTRESS JAPAN, R.I.P.

While Washington has been dutifully putting its financial house in order, Tokyo has been busy up-ending its finances. Talk about changing places. With the Japanese government forced to raise more and more cash, the flood of debt is pushing down bond prices and pulling up interest rates—in turn strengthening the yen. That'll crimp exports for sure, while higher rates will further cripple an economy reeling from deflation. It's hardly a recipe for economic revival.

A couple of months ago, Japan's economy seemed to be stabilizing. Now it's clear potholes still abound. One particularly troubling aspect is that Japan's much-vaunted national wealth is increasingly falling prey to bankruptcies and fire sales. Financial reserves—public and private—may not be bottom-

less after all. True, Japan boasts \$1 trillion in net foreign assets. But about 80% of that is private direct investment in companies. Now, foreign holdings are being sold at a loss as banks are busy selling off foreign-loan portfolios and treasuries to cover write-offs. The \$220 billion in official reserves held mostly in U.S. Treasuries, can't easily be unloaded without undermining the global financial system. So Japan's net creditor status may be of little use in a funding crisis.

The upshot: Expect Japan's economy, by hook or by crook, to finally open up to foreign investors. It's already happening with GE Capital purchasing Japan's biggest leasing company and other deals afoot. The pace is sure to accelerate. Fortress Japan will be a thing of the past.

the SAS® Data Mining Solution



There are millions of stories in your customer data. All ready to be sold.

prospects are hot? Or not? Which target groups need to be ignited...or simply sed? Instead of just storing your customer data, why not get the whole story with the SAS Data Mining Solution? It's the only software that spans every facet of the data mining process, bringing you ease of use and analytical depth in a single package—one step directly from the award-winning SAS Data Warehouse.

Click and drag. Drag and click. You don't have to be a statistician, or a database expert, to convert massive amounts of data into true business knowledge...and ultimately into competitive advantage. Identify your most profitable customers. Gauge the effectiveness of advertising. Strengthen customer relationships. All without ever leaving your desktop.

Identify them and reap

The patterns you'll discover in your customer data point the way to more profitable, data-driven decision making. To find out more, including real-world success stories and an interactive demo of the SAS Data Mining Solution, visit us at www.sas.com/mining

Analyze sales,
products, and finances

Explore customer
demographics

Detect fraud

Point-and-click
graphical user interface

Fully Web enabled

Year 2000 compliant



SAS Institute Inc.

The Business of Better Decision Making

www.sas.com/mining E-mail: bw@sas.com Phone 919.677.8200

SAS is a registered trademark of SAS Institute Inc. Copyright © 1998 by SAS Institute Inc.

LIFE IS A TO

www.the1904.com 1904 Fireman's Fund Insurance Co. Novato, CA



business • personal insurance



**Fireman's
Fund**

License to get on with it.

BusinessWeek

JANUARY 22, 1999

A PUBLICATION OF THE MCGRAW-HILL COMPANIES

\$3.95

Microsoft:
vulnerable?
Software
Annual Report



Internet
economy
Good, the bad,
ugly

China
is going



WHO NEEDS A BROKER?



*Billions are flowing
into index funds.
Online trading
is booming.
Bad news for
Wall Street.
Good news for investors.
Here's how you benefit.*

PAGE 111

BURLINGAME

FEB 12 1999

LIBRARY

BURLINGAME PUBLIC LIBRARY
480 PRIMROSE RD
BURLINGAME CA 94010-4010

0303
C030
#BXBBGDD**CAR-RT-SORT**
#0602 1058111600#JAN00T4L
0121



TRAIL · GUIDE

**IT CHARMS ITS PREY,
STRIKES QUICKLY
AND DISAPPEARS.**

**IT'S YOUR
TYPICAL BUSINESS
SOFTWARE COMPANY.**

(SMOOTHUS TALKUS REPTILIUS)

ke any sudden moves. Keep your
. And trust your instincts. That's
dvice we can give to

looking for
ness manage-
n. At Lawson
ve encourage
e your time, ask
estions and talk to

at customers of every
provider you're considering.

whether those features you saw
to are actually up and running

. Ask how long their

tations took. Ask

vice and support,

appened when they

upgrade. And, of

about the product. Is

ture capable of handling

lume of transactions? Does it

require all new desktops to do so? Are
the applications fully integrated? Process
oriented? Web accessible? The answers

may surprise you.

Lawson Software's

enterprise financials,

human resources,

procurement and supply

chain process suites lead the

industry in providing innovative

ways to gather, process and access

information. We were the first to utilize

web technology, enabling our customers

to share vital information more freely

and cost-effectively. Our Self-Evident

Applications™ practically eliminate

training costs. And our people

are known for their accessibility

and straightforwardness. In other words,

we don't bite. Visit Lawson Software at

www.lawson.com/guide or call 1-800-477-1357.



fig. 1

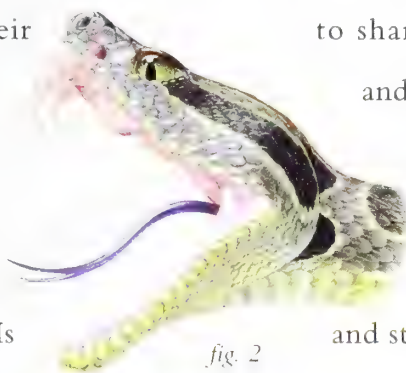


fig. 2

ING EDGE TECHNOLOGY WITHOUT THE ATTITUDE™

LAWSON
Software™

Global know-how. The first part of change and the 20
relationship between international financial centres, re
efficiency, innovation, commercial and social specialists to abse
advised and remains already, currently developments. Inte



and stock market movements, and to draw the right conclusions, locally and globally. And you need powerful networks to open up new perspectives for you. Come and get to know us at: www.ubs.com/knowhow



UBS



COVER STORY

THE INVESTOR REVOLUTION

The Internet has democratized investing, and indexing has made trading both simpler and less pricey

page 111

BusinessWeek

FEBRUARY 22, 1999



Cover Story

111 WHO NEEDS A BROKER?

Billions are flowing into index funds. Online trading is booming. Thanks to two phenomena born of cheap computing—indexing and the Internet—investors are standing Wall Street on its head by cutting out the middleman and taking control of their portfolios. Here's how the revolution benefits you

118 A FULL-SERVICE BROKER—ONLINE

E*Trade grew by zinging Wall Street

120 EVALUATING THE WEB SITES

How to find the quickest and cheapest

126 WHO NEEDS A MONEY MANAGER?

Index funds are easy—and a bargain

132 A FUNDAMENTAL FUND QUESTION

Should it be managed or indexed?

134 THE REAL DECISION

How to allocate assets correctly

News: Analysis & Commentary

30 HOW THE NET CHANGES EVERYTHING

It adds a whole new level to the economy and turbocharges growth—but it also carries additional risks

32 COMMENTARY: BEAR-MARKET BLUES

If the market sags, the economy may see the opposite of the "wealth effect"

33 STALEMATE IN WASHINGTON?

Both Democrats and the Republican right may sabotage efforts at compromise

34 COMMENTARY: CURRENCY

Should the Americas adopt Europe's single-currency model? Not yet

35 OVER A BARREL IN SAUDI ARABIA

Budget woes may force it to offer Big Oil access to its reserves

36 WHO KNEW WHO AT RITE-AID?

An SEC filing shows top shareholders held stakes in client companies

38 INTEL'S UPSCALE CHIP

Can the Pentium III turn the tide against cheap PCs?

40 FLYING IN THE FACE OF REALITY

Airlines bulk up fast despite signs of serious overcapacity

42 THE EDGAR AND BARRY SHOW

How long can Bronfman and Diller coexist at USA Networks?

45 IN BUSINESS THIS WEEK

International Business

48 CHINA

Reform has come screeching; the nation enters a year of peril—its most dangerous in

52 SWEDEN

Global winds of change force to merge, sell assets, or more

56 GERMANY

Companies are unlocking the purge war guilt

58 INTERNATIONAL OUTLOOK

Sonia Gandhi: Will India's new lead the Congress Party back

Economic Analysis

22 ECONOMIC VIEWPOINT

Barro: Reagan vs. Clinton

26 ECONOMIC TRENDS

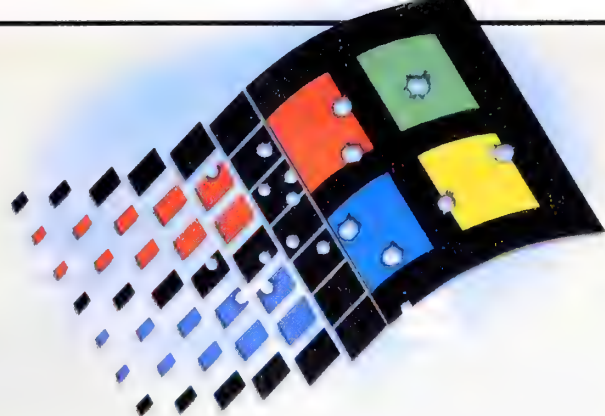
Old and new wealth's economic Europe and mutual funds, too

27 BUSINESS OUTLOOK

U.S.: Profit growth is caught

96 DEBT IS SHRINKING. IS THAT

Yes, mostly—but investors as U.S. Treasury notes get a



GOING...
by's, the
baseball
ever page 150

SPECIAL REPORT

As Microsoft hits a bad patch, competitors
have a window of opportunity page 60

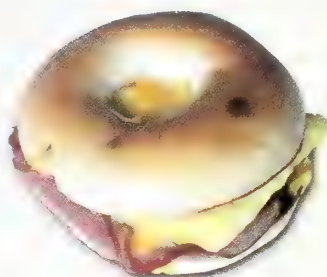
NET FALLOUT

How its incredible
growth affects the
economy page 30

BESIEGED
vedes are
smayed as
ne nation's
industrial
icons are
sold page 52



CHINA'S CHILL
Jobless fill
the streets,
consumers
aren't
buying, and
a crackdown
is crimping
investment
page 48



McTURNAROUND
New eats and a new
CEO are reversing
the slide page 84

ment

TON OUTLOOK

of GOP Presidential hopefuls are
r the same pool of cash

POWELL ALSO RISES

the general's son, is making his
the FCC. Strong ties to Capitol
ublicans help

al Report

FT: HOW VULNERABLE?

ring in court, its Win2000
g system is way behind
, and rivals are ready

RE'S MOUNT EVEREST

is big—really big. And it has
s to match

ENALTIES FOR MICROSOFT?

ing to look as if the feds may
ous remedies in court

orporation

OFF THEIR McBUTTS

ges by new McDonald's CEO
rg have halted the chain's slide,
e needs to be done

88 McDONALD'S GOES MEXICAN

Its stake in Chipotle Mexican Grill
restaurants aims for the adult market
share that has proved elusive

92 COMMENTARY: AUDITORS

Some get too close to their clients

Management

107 OVERHAUL AT BMW

New CEO Milberg has to revamp stalled
Rover, avoid takeover, and please the
controlling Quandt family

108 COMMENTARY: GERMANY

Will companies stop coddling bad CEOs?

Science & Technology

142 OUTSMARTING THE HIV VIRUS

Promising tests can chart its evolving
resistance to drugs and help doctors
tailor new treatments

147 DEVELOPMENTS TO WATCH

Miracle motor oil, cancer drug,
microrockets, virtual feelings

Sports Business

150 A VAST BASEBALL AUCTION

Barry Halper's eccentric treasure trove
will fetch millions

Marketing

154 WHY HATE THE MILLENNIUM?

Marketers are hyping it to a froth, and
they've only just begun

Features

6 UP FRONT

12 READERS REPORT

13 CORRECTIONS & CLARIFICATIONS

18 BOOKS

Brenner: *The Emperors of Chocolate*

19 TECHNOLOGY & YOU

Sprucing up your home network

138 INSIDE WALL STREET

159 BUSINESS WEEK INDEX

160 INDEX TO COMPANIES

161 INVESTMENT FIGURES OF THE WEEK

162 EDITORIALS

BusinessWeek ONLINE

www.businessweek.com
America Online: Keyword: BW

Up Front

EDITED BY ROBERT McNATT

SLUGFESTS

STAR TV DIMS OVER INDONESIA

ONCE, BEFORE "ASIAN" WAS A word so often followed by "financial crisis," Rupert Murdoch had high hopes for his satellite television network in Indonesia. In 1997, Star TV, based in Hong Kong, hooked up with Datakom Asia, an Indonesian outfit, hoping to flood TV sets in the world's fourth most populous nation with everything from HBO to E-mail birthday cards for subscribers.

Now, it looks like the party is over for Murdoch. The project, Indovision, counted only 9,000 paying subscribers



MURDOCH

even before Indonesia's financial meltdown. Then in 1998, Datakom insisted on switching to a new satellite, which ended up plagued by technical problems. Using it would have forced the partners to commit to yet another satellite, says Star TV, at a cost of \$150 million. So in December, Murdoch's company walked.

Datakom now says Star TV really reneged on the partnership because of Indonesia's financial crisis, using the satellite problems as an excuse. It promises to take Star TV to court. Star TV plans to concentrate on India, China, and Taiwan, writing off its investment and ambitions in Indonesia. *Bruce Einhorn and Michael Shari*

THE DEAL MILL

IS NEXTEL BEING PRETTIED UP FOR SALE?

NEXTEL COMMUNICATIONS IS doing some early spring cleaning. The big wireless phone carrier, based in McLean, Va., is selling its radio towers for \$560 million and then leasing them back from SpectraSite Communications, a tower developer in Cary, N.C. As part of the deal, Nextel will get a 17% equity stake in SpectraSite, which will also build about 1,700 towers for Nextel within five years. The move is part of a trend in the wireless



TOWERS: Spreading

industry over the past year to focus on marketing services. "Building and owning towers is not what their business is all about," says

SpectraSite CEO Stephen Clark.

But is there more going on than meets the eye? The deal is fueling speculation that Nextel, controlled by wireless pioneer Craig McCaw, is sprucing up its balance sheet for a sale. As the only independent national wireless carrier, Nextel has been frequently mentioned as a potential acquisition candidate. Since late December, its shares have advanced 50%, to about \$30.

One potential suitor is MCI WorldCom, which has virtually no presence in the wireless industry. Nextel declined to comment on the possibility of a sale. *Peter Elstrom*

TALK SHOW "For a book that doesn't meet our standards there is no amount of money that would cause us to feature it."

—CEO Jeffrey Bezos, on Amazon.com's display-fee policy

ELECTION 2000

AT LAST, CEOs GET ON THE BUS

HERE'S ONE MORE '60s flashback. In an echo of Ken Kesey's Merry Pranksters, the hippies who tripped their way across America in a bus called Furthur, 400 corporate CEOs are sponsoring another crosscountry bus trip. This one will protest U.S. budget priorities.

The execs belong to Business Leaders for Sensible Priorities, and they want lawmakers to slice 15% from the Pentagon budget and spend the money on education and health instead. To get their point across, they've outfitted a 40-foot bus carry-

ing performers and musicians that will show up at political campaign stops from



FURTHUR: Inspiration?

through the elections. The will drop in of tour from time.

Bruce K. CEO of apparel er Phillips Heusen, says while BLSP was lower defense ing, its member "hardly left- Says Klatsky want the milit be subjected same criteria nesses are sub to. The waste is insane group will budget up million for the whole which kicks off with airing in late February commercials? Now that's thing the Merry Prank never had. *Mica Sch*



OLD-STYLE PROFIT Robber Willie Sutton

PRIVACY PATROL

MONEY-LAUNDERING REGS TAKE A BATH

THE FEDERAL DEPOSIT Insurance Corp. has felt the fury of Webheads. In December, the regulator posted proposed anti-money-laundering rules on the Internet, expecting little reaction. Now, the FDIC is ready to beat a hasty retreat after those ideas provoked a near cyber-riot.

The rules, also under consideration by other bank regulatory agencies, come under the title "Know Your Customer." They would force

banks to keep close on any unusual activity, arousing of bankers "pro customers. If, for instance, you deposit the \$9,000 Mom you to buy a car, your account typically only a \$1,000 balance banker might grill you the funds.

The plan infuriated stream conservatives as privacy and antigovernment groups. E-mail and Web pages warned Bank is watching!" The ended up with 12,633 comments, thousands via Only 11 approved. The ment period ends on and the FDIC is ready tle the issue quickly, chagrined FDIC official. laundering is illegal, b feeds seem eager to their hands of this par remedy. *Mike Mc*

OK, you've got her attention. Now what?

After your ad stops a customer, you have to get her moving again. Right towards making a purchase.

That's the time to look at Direct Mail. As an integrated part of your media mix, it can deliver detailed product benefits and special offers that complement your image campaign. Just the thing to help your brand stand out and drive a customer to act.

What's more, through steady communication, you'll develop a relationship with your customers.

You'll learn exactly what they want. In turn, you'll be able to deliver more personal and relevant messages. And sell to them again and again.

For a free kit filled with information, ideas and examples on how adding Direct Mail to your media mix can help build your business call 1-800-THE-USPS, ext DM 3016.

 **UNITED STATES
POSTAL SERVICE®**

Fly Like an Eagle.™



Up Front

CORPORATE CULTURE

BLUE CREW AT AMERICAN



SINCE BECOMING CEO OF American Airlines in May, Donald Carty has tried hard to repair its fractious corporate culture, a legacy of predecessor Robert Crandall. His work is cut out for him. American has had to cancel hundreds of flights recently, in a dispute with pilots over its purchase of Reno Air, while other employees show

little faith in management.

In the carrier's first employee satisfaction survey since 1993, a mere 23% said American does an excellent job of inspiring loyalty, while just 31% believe what senior management says. And only 30% think morale is good. So even while 91% said they liked their jobs, the overall results were disappointing. Carty says he needs satisfied workers, because only they can provide the superior service that lures high-paying business travelers. Building a happy workforce, "remains the last major frontier for us." Carty is already discussing survey details with employees, a first at American, and plans to bring managers and workers together to resolve problems. "Doing a survey like this probably hurts morale in a company unless it leads to some changes," he says. American clearly needs some changes and sooner, rather than later.

Wendy Zellner

SPORTS BIZ

TAKING A SWING AT PHONY CLUBS

IN ORLANDO, U.S. CUSTOMS Service agents have arrested a band of Taiwan nationals selling fakes of Callaway Golf's Great Big Bertha golf club to retailers. The alleged con artists were so brazen that they tried to unload the goods at no less than the Professional Golfers' Assn. merchandise show—which plenty of Callaway people attended.

It all underscores the booming business in counterfeit golf gear. Legitimate club and equipment sales in 1999 are expected to be about \$2.4 billion. But counterfeiters, largely from Taiwan, China, Vietnam, and Thailand, sell \$4 billion worth of gear an-

nually, says Customs. Most fakes are sold abroad, but more are turning up at bargain prices in U.S. stores. Since 1997, U.S. authorities have fought back with "Project Teed Off," infiltrating the counterfeiting operations.

CAN YOU TELL WHICH CALLAWAY IS THE GREAT BIG KNOCKOFF?



Still, they've seized only \$6 million worth of fakes. Callaway, for its part, says it has even gone to Taiwan courts to recover damages. It says its clubs are titanium, while the fakes are often stainless steel. So if you're shopping for a Great Big Bertha, bring \$500—and a magnet to make sure it's real. Dennis Blank

THE PHONY CLUB IS

DRAWN & QUARTERED



TAXING MATTERS

NOW THAT'S A SWEETHEART DEAL

THINKING ROSES AGAIN FOR this Valentine's Day? Robert Greene, a Staatsburg, N.Y., accountant, says if you're married and work for yourself, you can do better.

He has developed the Spouse Employment Contract (SEC), a document that helps put your honey to work for you. No, this isn't indentured servitude. The plan, based on an odd collection of tax loopholes, actually is a gift. When self-employed workers contractually hire a spouse, they can write off expenses that ordinarily aren't deductible, including all child-care and med-

ical bills. The SEC, Greene says, passes muster under 1994 IRS ruling, No. 9409.

But you don't have to be limited to run-of-the-mill expenses. After Greene's wife, Nancy, as a tax he deducted \$1,000 in upkeep on his swimming pool, declaring it an "employee athletic facility." Even



Valentine's can count on employment benefits, he told, the wife has saved \$6,000 a year. Since hiring his wife in 1995, the IRS has challenged him. So is Nancy in line for a gift this year? Not Robert Greene. He says he's busy doing other people's taxes to shop. Robert B.

THE BIG PICTURE

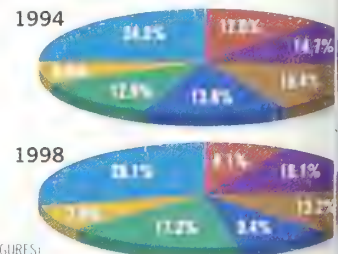
THE PRO'S PORTFOLIO PICKS

Money managers are increasingly opting out of shares in Smokestack America for their mutual-fund holdings. Instead, stock in industries central to the New Economy, especially technology, are gaining favor.

INVESTMENT BREAKDOWN OF U.S. MUTUAL FUNDS

- Utilities/Energy
- Financials
- Industrial cyclicals
- Consumer goods
- Services
- Retail
- Health/Technology

DATA: MORNINGSTAR INC. (YEAR-END FIGURES)



FOOTNOTES Financial service execs who see moderate increases in their Asian business in 1999: 47%; who see declines: 2%



Go places mere mortals will never see.
Unless they have a quarter. The V8-powered LX 470.

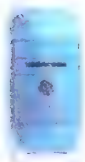


THE RELENTLESS PURSUIT OF PERFECTION.



© 1998 Lexus of America, Inc. Lexus is a registered trademark of Lexus, Inc. in the U.S. and other countries. For more information, visit our website at www.lexus.com or call 800-USA LEXUS (800-752-9353).

The new Power Macintosh G3.



The Power Macintosh G3 has been completely reinvented. With Pentium-crushing PowerPC processors up to 400MHz, the world's first integrated ATI RAGE 128 2D/3D-graphics accelerator (the new industry speed champ, faster than even the venerated Voodoo2 add-in card), up to 1GB of memory and up to 100GB of internal disk storage. The new Power Macintosh G3

Now opening on a desk near you.



... PCI slots and more ways to connect to external devices, with built-in 100Mbps Ethernet, USB and
... FireWire. It also gives you a revolutionary way to access the revolutionary technology inside – a side
... that opens as easily as, well, opening a door. The new Power Mac G3. It's the most powerful, expandable
... possible Macintosh ever built. Now open for your inspection at www.apple.com.  Think different.

EDITOR IN CHIEF: William Wolman
MANAGING EDITOR: William Wolman
CHIEF ECONOMIST: William Wolman
ASSISTANT MANAGING EDITORS: Frank J. Comes, Robert J. Dowling, G. David Wallace
ART DIRECTOR: Malcolm Frouman
CHIEF OF CORRESPONDENTS: James E. Ellis
SENIOR EDITORS: Bob Arnold (New Media), William Glasgall, Rick Green (Enterprise), Geoff Lewis, Paul Raeburn, Kathy Rebello, Jane A. Sasseen, Cori Scott, Lee Walczak (Washington), Elizabeth Weiner, Chris Welles, Seymour Zucker
EDITORIAL PAGE EDITOR: Bruce Nussbaum
SENIOR WRITERS: Robert Barker, Anthony Bianco, John A. Byrne, Jeffrey M. Laderman, Gene G. Marcial, Karen Pennar, Otis Port, Gary Weiss
ECONOMICS: James C. Cooper (Sr. Economist/Bus. Outlook ed.), Kathleen Madigan, Michael J. Mandel (Economics ed.), Peter Coy Gene Koretz (Trends ed.) Christopher Farrell (Contributing ed.)
INTERNATIONAL: Christopher Power (Asian Edition ed.); Rose Brady (European Edition ed.), Duane E. Anderson, Pete Engardio, John Warner (Sr. news eds.), John Templeman (Political affairs), Sheri Praso (Asia)
ASSOCIATE EDITORS: Catherine Arnst, Aaron Bernstein, Dan Becke, Amy Dunkin, Neil Gross, Kelley Holland, Larry Light, Ira Sager, Leah Nathans Spiro, Fred Strasser, Pat Wechselser
PICTURE EDITOR: Lawrence Lippmann
SENIOR ART DIRECTOR: Francesca Messina
DEPARTMENT EDITORS: Books: Hardy Green Corporate Finance: Debra Sparks Corporations: Nanette Byrnes Enterprise: Robin D. Schatz Legal Affairs: Mike France Management: Jennifer Reingold Marketing: Ellen Neuborne Media: Richard Siklos Money & Banking: Gary Silverman People: Eric Schine Personal Business: Edward C. Bang Personal Finance: Todd Gutner Scoreboards: Frederick F. Jespersen Software: Steve Hamm Technology Strategies: Marc Stepanek Telecommunications: Peter Elstrom Up Front: Robert McNatt
STAFF EDITORS: Heather Green, Ellen Licking, Joan Oleck, Anne Tergesen, Edith Uddike
COPY EDITORS: Prudence Crowther, Harry Maurer (Deputy chiefs), Marc Miller, Jim Taibi (Asst. chiefs), Tim Belknap, Alea Davies, Jack Robbins, Doug Royalty (Sr.), Giles Blunt, Joseph Mandel, Anne Newman, David Pengilly, Malka Percal, Lourdes Valeriano Researchers: Maria Chapin, Gail Fowler, Aida Rosario, Oluwabunmi Shabi
PRODUCTION COPY EDITORS: Lawrence Dack (Chief), Celine Keating (Deputy chief), Hallberg Hallundsson, B. Kite, Robert S. Norman, Robert J. Rosenberg, Victoria Rubin
ART: Jay Petrow, Steven Taylor (Deputy dir.), Don Besom, Alice Cheung Richard Demler, Christine Silver (Assoc.), Peter Marshutz (Asst.) Graphics & New Media: Arthur Eves (Creative dir.), Joan Danaher (Graphics dir.), Rob Doyle (Assoc.), Jaime Beauchamp, Alan Baseden, Lisa Knouse Braiman, Alberto Mena, Ray Vella (Illustrators), Eric Hoffmann Imaging: Annette Farrell (Mgr.), Alan Bomzer (Asst.), Leo Nietzer, Joseph
PHOTO EDITORS: Scott Mlyn (Deputy), Ronnie Weil (Sr.), Michael Hirsch, Anne Murray, Andrew Popper, (Assoc.), Bettina Baudoin, Kathleen Moore (Asst.), M. Margarita Firoa, Sarah Greenberg Morse (Researcher), Allen Young
EDITORIAL OPERATIONS: Yvonne F. Rodriguez (Director), Wally Baudin, Nicholas M. White (Mgrs.), Karen Butcher, Francisco Cardozo, Thomas R. Dowd, Nancy Gores, Stephen R. Lebron, Jody A. LoGrasso, Jose L. Martin, Peter K. Nieceberg, Jane M. Perkins, Laura Reissman, Karen Turok, Ilse V. Walton, Barbara Wilhelm Donald C. Pearson, Guillermo Ortiz
EDITORIAL TECHNOLOGY: Thomas L. Morgan (Director), Christopher Amado, Richard Balestrino, David Bandier, Lawrence Crowe, Beth Higgins, James Kutz, Neil MacLeod, John Navarro, Juan Rodriguez, Marta Skrelja, Mauro Varman
BUSINESS WEEK ONLINE: Michael Mercurio (Managing ed.); A. Peter Clem, John A. Dierdorf, John Johnsrud, Dennis K. Berman, Stefani Eads, Nadav Enbar, Paul Eng, Julia Lichtblau, Jeremy Guttiner, Diane Young
CORRESPONDENTS: Atlanta: Dean Foust (Mgr.), Boston: William C. Symonds (Mgr.), Paul C. Judge, Geoffrey Smith Chicago: Richard A. Melcher (Mgr.), Roger O. Crockett, David Leonhardt, Andrew Osterland, DeAnn Weimer Cleveland: Peter Galuszka (Mgr.) Connecticut: Diane Brady (Mgr.) Dallas: Wendy Zellner (Mgr.), Stephanie Anderson Forest, Detroit: Kathleen Kerwin (Mgr.), Joann Muller, Keith Naughton Los Angeles: Ronald Grover (Mgr.), Larry Armstrong (Sr. correspondent), Steven V. Brull, Kathleen Morris Philadelphia: Amy Barrett (Mgr.) Silicon Valley: Linda Himelein (Mgr.), Peter Burrows, Joan O.C. Hamilton, Robert D. Hof, Andy Reinhardt Washington: Owen Ullmann (Sr. writer), Paula Dwyer, Douglas Harbeck (News eds.), John Carey, Howard Gleckman (Sr. correspondents), Amy Bonus, Stan Crock, Richard S. Dunham, Susan B. Garland, Paul Magnusson, Mike McNamee, Stephen H. Wildstrom (Tech & You), Lorraine Woellert, Catherine Yang Beijing: Dexter Roberts (Mgr.) Bombay: Manjeet Kripalani (Mgr.) Frankfurt: Thane Peterson (Mgr.), Karen Lowy Miller Hong Kong: Joyce Barnathan (Mgr.) Mark L. Clifford, Bruce Emhorn London: Stanley Reed (Mgr.), Kerry Capel Mexico City: Gen Smith (Mgr.) Moscow: Patricia Kranz (Mgr.) Paris: Gail Edmondson (Mgr.), Stephen Baker Rome: John Rossant (Mgr.) São Paulo: Ian Katz (Mgr.) Singapore: Michael Shan (Mgr.) Tokyo: Brian Brenner (Mgr.), Robert Neff (Contributing ed.), Irene M. Kurni, Emily Thornton Toronto: Joseph Foster (Mgr.)
EDITORIAL SERVICES: Broadcasting: Ray Hoffman Business Manager: Barbara Boynton Information Services: Jamie B. Russell (Director) Karen Stevens (Mgr.), Judi Crowe, Susan Cusner, Fred Katzenberg, Robert Roeber, Susann Rutledge, Barbara Silverbush Office Manager: Ruselyn Kopt Communications: Robert Pondiscio (Director), Christine Summerson, Amy Yelvin Readers Report: Yvette Hernandez Reprint Permission: Janet Gonzalez
PUBLISHER: David G. Fern
SR. VP. ASSOCIATE PUBLISHER: William P. Kupper Jr.
SR. VP. OPERATIONS: Gary B. Hopkins
SR. VP. MARKETING & BRAND DEVELOPMENT: Harold K. Somerdyk
SR. VP. NEW MEDIA: Kevin E. Harol
VP. CONSUMER MARKETING/CIRCULATION: Thomas Masterson
VP. STRATEGIC PLANNING & PRODUCT DEVELOPMENT: Kimberly Greer
VPS. SALES: Constance E. Bennett (International), Joanne K. Bradford (Western Region), Dan Dunn (Midwestern Region), Robert H. Kelly (Northeast Region), Louis R. Mohr (Southeast Region)
VP. STRATEGIC PROGRAMS: James H. McGraw IV
VP. SALES DEVELOPMENT: Mark A. Flinn
VP. MANAGING DIRECTOR/ASIA: Stephen B. Moss
VP. MANAGING DIRECTOR/EUROPE: Fritz Krusebecker
VP. TECHNOLOGY: Thomas J. Reed
VP. CONTROLLER: Bernard J. Drackwicz
DIRECTOR, ADVERTISING BUSINESS: Linda F. Carvalho
DIRECTOR, PRODUCTION & SALES SERVICES: Mario J. Talloito
DIRECTOR, RESEARCH & SUPPORT SERVICES: Charlene Trentham

LINUX—NOT JUST FOR CULTISTS

There are several inconsistencies that appear in "It might not break Windows, but..." (News: Analysis & Commentary, Feb. 1):

First, think about the phrase "polished by programmers in their spare time." This "time," if accounted for at the professional rates these "hobbyists" bill, would create a staggering development figure.

Second, these "nerds" are available for technical support and development simply by posting issues on the Internet; this support is provided only because of the love of the "hobby"—try getting better, faster, free tech support from any major corporation. By comparison, the going rate is about \$150 per troubleshooting incident for a technician who may or may not solve your problem.

Third, the assertion that only "a small group of Linux aficionados" think Linux is viable contradicts a later fact in the same article: 17% of servers bought in 1998 run Linux. Furthermore, the implication that "Internet access providers, Web sites, and universities" are not valid organizations compared with, say, airlines, insults every corporation currently working to create the new economy for the next century.

Companies for which Linux is not "even on [the] radar" or that think Linux is "a cult thing" are missing an opportunity for increased reliability and productivity, and, as your article pointed out, dramatically reduced implementation, upgrade, and maintenance costs.

Jim Pearson
 Chief Operating Officer
 Network By Design
 Oakland, Calif.

SOCIAL SECURITY: BYE-BYE, AMERICAN PIE

The desperate search for a painless way to save Social Security has sunk to a new low—pure gimmickry ("Social Security: Here we go again," Editorials,

Feb. 1). To be sure, investing some of the budget surplus in the stock market, rather than using it to pay off government debt, would put Social Security on sounder financial footing. But would do so only by reducing the expected returns for private investors who would wind up holding fewer equities and more Treasury bonds.

This reshuffling of paper assets between the government and private parties obviously isn't going to increase savings, productivity, or output of the nation as a whole. The pie isn't going to be any bigger, so the nation's ability to support retirees in the next century won't be any greater. The unfortunate reality is that there is no costless way of funding Social Security. If benefits are to be maintained, someone is going to have to pay.

Joshua N. Fein
 John R. Williams
 Bankers Trust
 New York

ROBBING SOCIAL SECURITY TO PAY THE GENERAL FUND?

The Clinton Administration continues to parrot the mantra "Save Social Security now," yet the President wants more of the very same government programs that in the past have raided off-balance the Social Security Trust funds ("Advantage, Clinton," News: Analysis & Commentary, Feb. 1). For decades, the U.S. government has indulged in the habit of taking money out of Social Security funds to bolster other programs. This off-budget spending of Social Security funds is possibly the biggest threat to elderly American retirement plans.

Why has Clinton not demanded legislation to end this intra-fund "borrowing"? If Bill Clinton is not willing to cut off the politician's spigot to off-budget spending, then we simply cannot trust anything else he has to say regarding Social Security, including plans to "invest" in the stock market.

Richard
 Austin, Tex.

BusinessWeek

A Division of The McGraw-Hill Companies

FEBRUARY 22, 1999 (ISSN 0007-7135)*** 3617

Postmaster: Send address changes to BusinessWeek, P.O. Box 518, Hightstown, NJ 08520. Please allow 4-6 weeks for change of address to take effect. Second-class postage paid at New York, N.Y., and at additional mailing offices. Postage paid at Montreal, P.Q. Canada Post International Publications Mail Product Sales Agreement No. 24665.

BusinessWeek is a McGraw-Hill Company. For a complete list of McGraw-Hill's products and services, please visit our website at www.mcgraw-hill.com. For more information, please contact our Customer Service Department at 1-800-393-6343. For advertising information, please contact our Advertising Department at 1-800-393-6343. For subscription information, please contact our Subscription Department at 1-800-393-6343. For circulation information, please contact our Circulation Department at 1-800-393-6343. For general information, please contact our General Information Department at 1-800-393-6343. For reprint information, please contact our Reprint Department at 1-800-393-6343. For permission to photocopy, please contact our Permissions Department at 1-800-393-6343. For all other information, please contact our Customer Service Department at 1-800-393-6343.

RECTIONS & CLARIFICATIONS

leagues of their own" (Sports Business Jan. 18) contained factual errors. The men's Fastpitch League is now called the men's Pro Softball League. The Orlando Expos, the league champions, did not go bankrupt, but play was suspended. And the salary cap was \$100,000, not \$72,000. In addition, Jennifer Rottenberg, who was involved in efforts to start a women's soccer league, was a consultant, not a player, and never told BUSINESS WEEK that the U.S. Soccer Federation was "hostile" to the notion of a women's league.

President Clinton proposes shifting \$1 billion in general revenues to the Security Trust Fund over the next five years. Your article does not explain the impact of this process. Since the Security Trust Fund exists only in the form of IOUs from the General Fund, the only reason a surplus in the General Fund can be declared is because the money borrowed from the Social Security Fund is entered without recognizing its source. So money borrowed from the Trust Fund, which is declared a surplus, is to be paid back to the Trust Fund where it will be borrowed again in the General Fund, since that is the only place it can legally be invested. Does this "save" Social Security? A year ago, it was predicted that it would take several years before this surplus could be generated. This is not typical of the government's tendency to project budget estimates. The current surplus is the result of a hot economy driven by technology, low interest rates, and low inflation.

Ralph Strong
Glen Burnie, Md.

ISN'T REALLY
ECONOMY, STUPID

The economy: Clinton has played his cards well" (Economic Viewpoint, Feb. 1992) is a huge dose of reality about the political astuteness of Bill Clinton. He has the economic savvy of Alan Greenspan. Clinton has been smart enough to take advantage of all of the factors that have spawned this vibrant economy, including the dour forecast of a decline in the economy in 1992, to which generated the saying "It's not the economy, stupid." In reality (as later proved), the economy grew 3.2%, then Bush had been defeated. The writer Robert Kuttner failed to mention the \$54 billion per day that was spent by Reagan and George Bush on defense. This is money that can be fed back into the economy—al-

though it more than did its job, which was to put the Soviet military machine out of business. We are now realizing the benefit of those funds in their windfall effect on the economy.

Neil L. Harmon
Lake Forest Park, Wash.

THIS WORKFORCE IS
NOT JUST ANOTHER STATISTIC

"There's something screwy about the strong labor stats" (Business Outlook,

Jan. 25) ignores the impact of immigration on the labor supply. Since the 1994 devaluation of the peso in Mexico, illegal immigration has been surging, as evidenced by increased apprehensions of illegal aliens by the U.S. Border Patrol on our Southwest border. It now exceeds 1.5 million per year.

Many of those who don't get caught and who make it to Houston and other cities are supplying the labor for the recent increase in construction activity—without putting wage pressure



Al here has his mind set in stone, so it's unlikely that he would see the value in the Williams level of innovation and reliability.

Just be open-minded enough to consider this: Only Williams leads in both energy and communications solutions for business. Built on a solid \$18 billion corporate foundation you can count on. Call us ... and no more headaches.



Energy • Communications • Leadership

1-800-WILLIAMS • NYSE: WMB

Readers Report

on the economy. Some of this wage slowdown is coming from unscrupulous employers who hire such immigrants at low hourly rates without thorough document checks. This enables them to hire "skilled" construction workers out of Mexico and Central America, with many more to come from South America with the current Brazilian economic crisis deepening. Immigrants are also easily filling the many low-paid jobs in our rapidly expanding service sector, with wages below the national average.

There is a lack of official data from the Labor Dept. on this phenomenon. Many illegal immigrants are hidden in our informal economy, work for subcontractors, and are not counted by surveys to compute employment numbers.

Alan R. Goozner
Intelligence Analyst
Immigration & Naturalization Service
Washington

IS THERE A 12-STEP PROGRAM FOR WORKAHOLICS?

I enjoy BUSINESS WEEK a great deal. But the juxtaposition of the disintegra-

tion of Richard E. Belluzzo's 23-year marriage and his mother's concerns about his workaholicism with the statement that such "...addiction may be just what the doctor ordered for SGI..." was troubling ("What makes Rick run?" Information Technology, Feb. 1). I have never believed business is worth sacrificing personal relationships for, and to congratulate someone for it seems somewhat myopic.

William Svendsen
Portland, Ore.

SUN VS. MICROSOFT: IT'S NOT ABOUT SIZE

I was amused by the suggestion in "Sun Power" (Cover Story, Jan. 18) that Sun Microsystems Inc.'s Solaris operating system is "under a bruising assault" because Microsoft NT is shipping 1.6 million copies, compared with Solaris' 167,000 in 1998, according to the estimates of International Data Corp. Of course, Solaris was outshipped 10 to 1: It takes 10 times as many servers running NT to equal the computing power, reliability, stability, and availability of a single Sun SPARC running Solaris.

NT has its place: in environments that are not mission-critical. But managing crucial business data and services on NT servers is not an option.

Paul Theodoropoulos
Senior UNIX Systems Administrator
Advanced TelCom Group
Santa Rosa, Calif.

PREVENTION USUALLY COSTS MORE THAN CURE

Although Richard L. Huber, chief executive of Aetna Inc., is right, the government-run health care would be a fiasco of undreamed-of proportions. It is not quite accurate in making the argument that managed care keeps people healthy rather than waiting until they become sick ("Managed care: a bum rap," Readers Report, Jan. 18). If this were true, there would be no unhappy patients and equally no complaints. Since that is obviously not the case, there must be more to the equation.

Unfortunately, prevention is cheaper than cure only within very limited parameters. And, unlike doctors, who are trained to fight disease no matter how much it costs, managed care is in-



No matter what size your world is, MCI WorldCom On-Net can help you manage it more effectively. Whether your needs are local, national or international, you deal with one network and one company. No handoffs to other carriers. So the service and products are consistent from market to market. For example, your local service or high-speed Internet access works the same way in Tulsa as it does in

in prevention only when it saves
y, which is less often than most
le realize.

simple example: mammograms. If
ted early, breast cancer is curable
ximately 90% of the time with-
nastectomy. And the overall five-
survival rate for such cancers is
tounding 97%. So why has it tak-
deral and state legislation to force
ged-care companies to cover
y mammograms for women over
ge of 50? And why is there still

FINDING US ONLINE

BusinessWeek ONLINE

Full text of Business Week, the Business Week
Briefing, and seven years of BW archives are
available on the World Wide Web at:

www.businessweek.com

and on America Online at Keyword: BW.
Sign up for BW on AOL, call (800) 641-4848
and mention Business Week.

maven

ing for computer equipment? Visit Maven, our
ne Computer Buying Guide, for continuously
updated ratings and price information.
Go to Keyword: Maven on America Online,
or to the World Wide Web at:

www.maven.businessweek.com

much resistance to covering them for
women between the ages of 40 and 50,
even though breast cancer kills more
women aged 35 to 45 than any other
disease?

The answer is, unfortunately, that
even though the treatment of early
breast cancer costs a lot less than caring
for those with more advanced disease,
performing mammograms every year
on every woman over the age of 40 to
detect those few who will develop a
cancer in any one year costs a great
deal more than doing the mammograms
less often and missing a few early can-
cers. In other words, that much pre-
vention is not cost-effective. And, there-
fore, it's not good for bottom-line profits
or stockholders. And those are the real
concerns of for-profit managed-care com-
panies, including Aetna.

David H. Fields, M.D.
Vice-President

Association of Independent Physicians
New York

XALATAN: AN Rx FOR FEWER DOCTOR VISITS

"When an ounce of prevention costs
too much" (News: Analysis & Com-
mentary, Jan. 25) misses several points,
based on my experience. You cite
Kaiser Permanente's costs of prescrib-

ing Xalatan for glaucoma. I am one of
those patients. The generic beta block-
er I tried for ocular pressure did not
work, and I saw my ophthalmologist
up to four times per year. With
Xalatan, we will be down to one visit
per year. So, drug costs are clearly up,
but the total cost of treatment—where
is that accounting category?—is surely
down.

R. L. Promboin
Westlake Village, Calif.

HOW TO REACH BUSINESS WEEK

LETTERS FOR READERS REPORT

All letters must include an address and daytime and
evening phone numbers. We reserve the right to edit
letters for clarity and space and to use them in all
electronic and print editions.

Mail: Business Week, 1221 Avenue of the Americas,
39th floor, New York, NY 10020

Fax: (212) 512-6458

Internet: bwreader@businessweek.com

America Online: readersbw

SUBSCRIBER SERVICES

For individual subscriptions, corporate subscriptions,
renewals, changes or problems, and single copies.

Phone: (800) 635-1200 or (609) 426-7500

Fax: (609) 426-7623

Internet: bwcustsv@businessweek.com

REPRINTS AND COPYRIGHT PERMISSIONS

For custom reprints (minimum order of 1,000) contact
(212) 512-3148

For all other permission or reprint inquiries,

Phone: (212) 512-4801

Fax: (212) 512-4938

Internet: www.businessweek.com/reprints/

world



large



or small.



MCI WORLD COM

ed pany also means one dedicated account team to handle all of your communications needs. Whether those needs span cities or
s. Further, by combining all of your services with us, you'll receive volume discounts. All of which makes things run a little more
in your world. Big, small or anywhere in between. Introducing MCI WorldCom On Net. For details, visit mciworldcom.com

T O M W I T T

pro shop manager

AND DATABASE PRO

B A Y V I E W T E N N I

One Long Bay Drive. N

Tel 563-555-7006 Fax 5

Tom kept reminding himself this was supposed to be fun. But his shop had grown bigger. His staff had grown bigger. And the headaches, yes, they'd grown bigger too. It was tennis he loved, not working late to take care of scheduling, inventory and client management. Enter the club IS consultant. Who eagerly pointed out that i



J B

Virginia 23815

7008 ta@bitennis.com

aker Pro. Tom could remain his lovable, starry-eyed self. And, with basic computer knowledge, turn his experience and enthusiasm into a workgroup database that would help the shop run better in a hundred ways. Visit us at www.filemaker.com. *What's your problem?*



THE EMPERORS OF CHOCOLATE

Inside the Secret World of Hershey and Mars

By Joël Glenn Brenner

Random House • 366pp • \$25.95

IT'S NOT ALL KISSES IN CANDYLAND

There seems to be a formula for writing books about kid-focused companies: Describe in flowery terms the joy the products bring—whether toys, animated movies, or fast-food restaurants—and then compare that with the hard-nosed business behind the smiles. In several recent books of this sort, however, the competitive tactics have turned out to be rather commonplace, leaving readers with little feeling of contrast.

In *Emperors of Chocolate*, Joël Glenn Brenner follows the same path but ends up in a different place: She actually has found an unusual industry—one that stands out both because of its sweet image and somewhat sour reality. Her subjects are the families behind Hershey Foods Corp. and Mars Inc.—who have built most of America's \$14 billion candy business. She uses them to spin an entertaining tale full of good anecdotes—but one that falls short because of reporting gaps and a perception of the business world that borders on naive.

Chocoholics will forgive her, though, because there is much to savor here. The book describes everything from the processing of cocoa beans to the search for the next big candy bar. Along the way, readers get tidbits that are excellent fodder for bar bets. Guess, for example, what percentage of M&Ms are brown? The correct answer is 30%; red and yellow each account for 20%; and orange, blue, and green 10% each. But Mars changes the mix occasionally.

The U.S. candy business as we know it started in the late 19th century with Milton Hershey, a Mennonite who built a thriving caramel business in Pennsylvania. By 1893, when he saw a German chocolate-making machine at a world's fair, he bought it. The purchase shaped his legacy. He sold his caramel business and set up a utopian industrial town where he would make chocolate.

Chocolate was hardly a novel product. In Central America, it had been drunk as early as 1000 B.C., and Columbus brought cocoa beans back to Europe. But when Hershey broke ground on his factory in 1903, solid chocolate was just becoming a food for the American masses. He eschewed European formulas for milk chocolate and instead hit upon an entirely new process, one that actually soured the milk. That accounts for the distinctive Hershey taste—and for the enormous popularity that drove Kisses to \$2 million in sales in 1907, their debut year.

The company continued to prosper in the next decades, but what made it stand out was the town it created and called home: Hershey, Pa. There, with the aroma of chocolate wafting over every street, Milton Hershey built parks and schools, paid above-average wages, opened a tuition-free junior college, and set up a school for orphans. But he was not without contradictions. When workers seized the factory in 1937 to protest the 60-hour work week, Hershey stood by as dairy farmers, who depended upon sales to the company, dragged the strikers out and beat them unconscious.

After Hershey's death in 1945, the company drifted. It eschewed advertising for decades and cut costs instead of expanding into Europe and capitalizing on the huge presence it had built during World War II. By the 1970s, Mars had closed the gap in domestic sales, even surpassing No. 1 Hershey on several occasions. Globally, Mars is now the clear leader, with 15% of all candy sales.

Mars's international success results from the family's visionary approach to business. The amalgamation of two com-

panies—one started by Frank Mars in 1914, the other by his son Forrest Mars—has been something of an alchemy. Mars has been something of an alchemist, known laboratory for the theories of management. Almost any worker can halt the production line. Salary is based largely on company performance. Even top managers work in a large area. Notes Brenner: "Such popular products as General Motors Corp.'s cars have been built on these so-called innovative ideas."

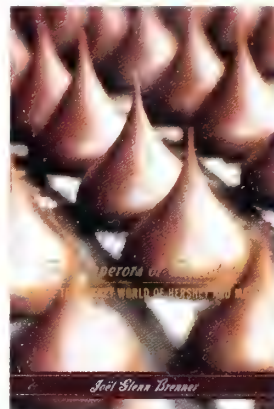
But if Milton Hershey was somewhat of a paradox where employees were concerned, the Mars family could be described as right cruel. Over the years, family members regularly subjected workers to screaming fits. They even abused other: Once, during a high-level meeting in Germany, Forrest Mars made son John get on the floor for an hour and pray for the company's success. Brenner writes. With John on his knees, Forrest continued with the agenda.

Unfortunately, such rich detail does not overcome the book's lapses. A former *Washington Post* financial reporter, Brenner seems to have a surprisingly superficial understanding of Corporate America. She complains often about company executives' refusal to cooperate with her and finds it remarkable that an industry association spokesman declined to comment on the Hershey-Mars rivalry. The book repeats the cliche that the two companies' dueling claims about the nutritional value of chocolate, providing little objective comment. And the author is prone to a statement: "Millions of people visit the park and factory each year," he writes of Hershey's town. "In every one of them became a life-long Hershey customer."

Emperors of Chocolate would have been better had it been trimmed by pages and aimed to be a straightforward and entertaining history of candy. In that regard, the book resembles a chocolate bar: It's a tasty snack, not a satisfying meal.

BY DAVID LEONHART

Chicago correspondent Leonhart enjoys Hershey bars and Mars's *Musketeers*.



ONCE, DURING A MEETING, FORREST MARS MADE HIS SON JOHN PRAY ON THE FLOOR FOR AN HOUR

One of our most important offerings doesn't appear in our catalog.



Ron Bitt
Distribution Supervisor
Rochester Distribution Center
Rochester, NY

Meet Ron in our shipping department.

**Boise Cascade
Office Products**
www.bcop.com

It's not that he's shy or even that we don't want you to see him. Let's just say that Ron represents a whole team of people at Boise Cascade Office Products who work behind the scenes to make your job easier.

Our professional sales reps who design a system that works the way you do. Or customer service and warehouse associates, Ron, who find ways to accurately receive and process your orders. Everyone through our skilled delivery fleet helps us achieve a 98 percent on-time delivery rating, so your orders arrive when and where you need them. We make sure that you get what you need to keep your office running. Call **888-BOISE-88** and we'll deliver a box full of attractive ways to simplify your business.

BOISE. IT COULDN'T BE EASIER.SM

OFFICE SUPPLIES • TECHNOLOGY PRODUCTS • FURNITURE • PROMOTIONAL PRODUCTS

Building Partnerships Between Business and Conservation



Michael Beck



Kim Waltmire

Two Honored for Outstanding Achievements

Michael Beck, Director of San Diego's Endangered Habitats League, is the winner of our **1999 Alexander Calder Conservation Award**. His Natural Communities Conservation Plan will set aside 172,000 acres of coastal habitat, protecting 80 rare, threatened and endangered animal and plant species. The plan also enables appropriate development over a surrounding 378,000 acres. Michael has so ably demonstrated that through hard work and compromise, economic and environmental progress can be achieved together.

Kim Waltmire, a second-grade teacher at Jack Jackter Elementary School in Colchester, CT, is the winner of our **1999 Gene Cartledge Award for Excellence in Environmental Education**. Eight years ago Kim created a program that brings together her students and senior citizens to study important environmental issues. In 1998, participants studied environmental issues on Long Island Sound, and learned how a clean environment is vital to a healthy economy. We salute Kim for her outstanding commitment to teaching.



THE CONSERVATION FUND

Union Camp Corporation and The Conservation Fund are proud to recognize the special people who help strike a balance between the interests of the economy and conservation. We do so through two annual awards – The Alexander Calder Conservation Award and the Gene Cartledge Award for Excellence in Environmental Education.

Our 1999 winners each received a \$10,000 grant from Union Camp at a ceremony held in their honor in Washington D.C. For additional information call (703) 683-2996 or (973) 628-2482, or visit our web site at www.unioncamp.com

YOUR SECOND \$20 MILLION, FORTUNATELY, COMES EASIER.

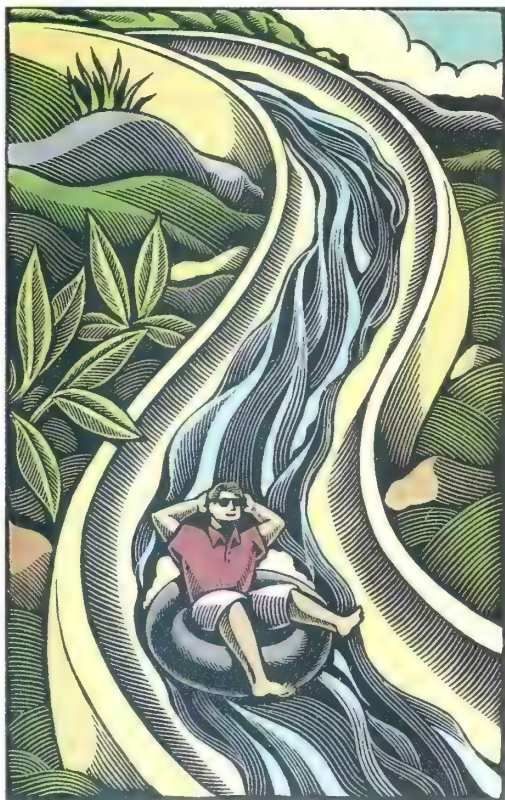
Life on Easy Street arrives with a surprise: the walk can be hard. The celebrated "comfortable" life, it turns out, often is not.

A friend suggested this when he reminisced about his earlier life: when you have no money, he said, you never worry about what to do with it.

In our friend's simpler times, he never faced the realization that one bad decision could cost him more in taxes than his father had ever earned. Nor had our friend ever learned that the old axiom "never spend the principal" could cost him hundreds of thousands of dollars.

To help make the "comfortable" life more comfortable, we practice *total wealth management*. We integrate investment planning and execution with income and

estate tax planning, custody and family office services, and charitable gift management. And we bring order to your busy life.



Our investment and financial principals provide these services to 225 families whose average net worth now exceeds \$21 million, and whose loyalty to us is remarkable. Virtually every client to ever join us is still with us, in 38 states nationwide.

The rewards for their remarkable devotion, by the way, have never been greater. Even by today's

near vertical stock market standards, Lowry Hill® clients have flourished.

You can, too—while you thoroughly enjoy the ride. Peter Glanville (888-648-8157 or peterg@lowryhill.com) would be delighted to tell you how.



LOWRY HILL



Build websites with kick.



Macromedia. It makes your
websites more exciting, more
lively, more punchy.
More stimulating.
Pour some into your website.

www.macromedia.com

add life to the web



Allied Arts Guild

*Travel our
cobblestone
paths and
help some
children along
the way.*



Historic Spanish Colonial Architecture, Magnificent Gardens, Fresco Bueno Murals

Artisans' Studios and Shops
Restaurant, Private Parties, Special Events

75 Arbor Road at Cambridge, Menlo Park, CA 94025

Open to the public Monday - Saturday, 10 am - 5 pm

For information call 650•322•2405

For restaurant reservations, call 650•324•2588

The Allied Arts Guild is managed by the volunteers of Woodside-Atherton Auxiliary,
benefiting Lucile Salter Packard Children's Hospital at Stanford.



LUCILE PACKARD CHILDREN'S
HEALTH SERVICES AT STANFORD

UCSF Stanford Health Care

STEPHEN H. WILDSTROM

PRUCING UP YOUR HOME NETWORK

ucts are on the
to keep your files
re and link
Mac households

t a lot of questions in
sponse to my recent
umn (Jan. 18) on cheap
sy ways to link home
ters into a network so
in share a printer or
et access. Two areas
out: How to link up
oshes and how to

the security
ome network
ted to
Internet.

afraid I cre-
some false
ations when
my Mac
Windows PC
an Inter-
connection
hone wires.
ld be tough
nyone to
he system.

Systems
me com-
l hardware
t has no
o sell at retail. I also
cobble the software
er, using WinProxy
Ositis Software
ositis.com) to share a
connection, and PC
from Miramar Sys-
www.miramarsys.com)
the PC and Mac use
her's files.

IENT. Help is on the
folks with Macs, or a
Macs and PCs, but you
ng to have to be pa-
Unlike PC companies
as Compaq and
t-Packard, Apple Com-
as avoided home net-
g, preferring to leave

it to other companies. Fortu-
nately, Farallon Communica-
tions, a longtime supplier of
Mac networking gear, has
taken up the challenge. This
spring, Farallon plans to un-
veil hardware that will allow
any Mac to use a home phone
wire for networking, along
with software for Net access
and PC-Mac file sharing. The
products have not yet been
priced, but Farallon says they
will be competitive with ex-
isting Windows

built into Windows 95 and 98
and MacOS, but it wouldn't
stop a bright 8-year-old.

For home users, the dan-
gers are minimal, since any-
one in your family can get all
of the information in your
computer already. A bigger
issue is unwittingly sharing
files with your neighbors. If
you connect to the Inter-
net through a cable modem
and have file sharing acti-
vated on your computers,
your data may be accessi-
ble to the 200 or so people
who connect to the cable
system at the same point.
Home networking over power
lines, if it becomes practical,
can give new meaning to
Windows' Network Neigh-
borhood by making your files
visible to everyone getting
their power from the same
transformer, even without an

Internet connection.

Cable companies
are dealing with the
problem. They have
started using
modems that
encrypt all traf-
fic and restrict
unauthorized ac-
cess. You can en-
crypt sensitive
data yourself with
a program such as
Symantec's Norton
Your Eyes Only.

Wireless network-
ing is a good, though
more expensive, alter-
native to the use of

phone wires. In my network-
ing column, I overlooked a
supplier of wireless gear. The
wireless networking cards
from WebGear (408 271-9888
or www.webgear.com) op-
erate in the 900-Mhz band used
by cordless phones and cost
about \$120 a pair (after re-
bate). This spring, WebGear
plans to ship a setup that
works in the more reliable 2.4-
Ghz band, and that should be
an industry price leader at
about \$199 a pair. One thing I
learned from my column is
that there are a lot of people
who would love to give home
networking a try.

products, which should mean
around \$50 per computer. A
little later in the year, 3Com
plans to unveil a Mac phone
wire adapter that will work
with iMacs and the newest
G3 computers.

Whether using Macs or
Windows, home networks and
fast Internet connections
raise some privacy and secu-
rity issues. Anyone on these
networks should realize that
once file sharing is turned on,
the files on any computer
could be read by another ma-
chine on the local network.
Some network security is



BULLETIN BOARD

WEB SEARCHES

GOING THE EXTRA MILE

Following my Feb. 8 column
on better Web searching, I
heard from several readers
who offered additional recom-
mendations. Most are what



are known as
meta-search
tools: sites that
harness several
conventional
search engines
and then try to

make a coherent presentation
of what can be overwhelming
results. If you really want to
do an exhaustive search, Dog-
pile (www.dogpile.com) will
turn 14 search engines loose
on your query. It offers addi-
tional specialized searches of
Net discussion groups, news
wires, business news, and
software archives. ProFusion
(www.profusion.com) is less
relentless, but does better at
ranking the results for accu-
racy. SavvySearch (www.sav-
vysearch.com) is good at spe-
cialty searches, for instance,



letting you limit your sources
to online encyclopedias. Some
Macintosh owners took me to
task for not mentioning Sher-
lock, a feature of the new
MacOS 8.5. Sherlock is not a
search engine as such but a
nifty tool that allows a seam-
less search of both the con-
tent of hard drives and of the



Internet. A wide variety of
software "plug-ins" lets you
link your desktop directly to
an assortment of data
sources, from traditional
search tools like Yahoo! to the
Amazon.com book catalog.

Node?



We're willing to bet you don't think of yourself that way.

Probably you don't think of anyone at your company as a node either. They're users. People. Individuals.

Your network should recognize individuals too. And it can, right now, with Novell Directory Services® (NDS™).

With NDS software, everyone on your network has a unique profile. They can access the network online to get all the necessary business tools even when they're away from the office. With one password, the network identifies which files and applications they may use, while restricting access to secure or sensitive documents.

NDS-enabled applications monitor the system to correct problems like Y2K before they turn into downtime. NDS is designed to work on a variety of platforms like NetWare®, NT and UNIX®, because different people and departments have different needs.

You need a network of people, not nodes. You need a networking specialist. You need

www.novell.com/node or 1-800-509-1800



© 1999 Novell, Inc. All rights reserved. Novell, NetWare and Novell Directory Services are registered trademarks and NDS is a trademark of Novell, Inc. in the United States and other countries. UNIX is a registered trademark of X/Open Company, Ltd. in the United States and other countries.

Novell®

open/net/works

BY ROBERT J. BARRO

REAGAN VS. CLINTON: WHO'S THE ECONOMIC CHAMP?



BY A NOSE:
Reagan's first term was tops—it broke the back of inflation. Clinton's last term comes in second. But he still has two years to go

When it comes to honesty and alleged criminal behavior, the differences between Presidents Nixon and Clinton are arguable. But for economic outcomes, the distinction could not be clearer. Nixon's ouster in 1974 came during a period with the next-to-worst economic record of the 13 Administrations since World War II. Only the Carter Presidency had a poorer showing. In contrast, Clinton's second Administration has the best record, except for President Reagan's first term.

The following table, which might be called the Barro misery index (BMI), is a better measure than the original misery index (a term coined by Arthur Okun, an adviser to Lyndon Johnson). It adds gross domestic product and interest rates to inflation and unemployment. And the BMI looks at change over the entire course of each Presidential term, not just the level of say, inflation or unemployment at the time.

According to my definition, misery increased if the inflation rate rose, if the unemployment rate went up, if long-term interest rates increased, and if the growth rate

of real GDP was below average. The per-mate column adds these items to compute the overall contribution to misery. The column ranks the Administrations, where 1 is the least misery and 13 is the most.

Clinton had a strong first term. Declining unemployment, in interest rates, and inflation combined with average economic growth to give him a fifth-place ranking, right behind the Kennedy-Johnson term.

NONPARTISAN VIEW. The first two years of Clinton's second term brought even better results. The growth rate of GDP in 1998 (4.9%) is the highest since 1984, the unemployment rate (4.3%) is the lowest since 1970, the consumer price index inflation rate (1.6%) is the lowest since 1986, and long-term interest rates (roughly 5.2% at yearend) are the lowest since 1967.

But the same process that gives Clinton such high marks still puts Reagan's first term at the top. Reagan broke the back of inflation that had built up since the '60s. No doubt the White House will explain why my scoring is accurate for Clinton and wrong for Reagan, but a nonpartisan view would accept both

verdicts.

Is policy or luck behind Clinton's economic success? When it came to growth, his good policies—such as free trade, welfare reform, spending restraint, and stable monetary policy—outweighed his bad ones. Some of them are an income-tax rate hike, a minimum-wage increase, and a long-term leave regulation, and overzealous antitrust enforcement.

The key is probably the absence of any really big error in domestic policy. Nixon had price controls, Bush had the Americans with Disabilities Act, and Clinton's health-care proposal didn't get passed by Congress. Of course, we are still (apparently) years to go in the Clinton Presidency. He's still a contender to overtake Reagan in my BMI.

The Barro Misery Index for U.S. Presidents

Changes in Rates of...

	INFLATION	UNEMPLOYMENT	LONG-TERM INTEREST	GDP SHORTFALL	MISERY INDEX	RANK
REAGAN '81-'84	-6.3	1.4	-0.7	0.7	-4.9	1
CLINTON '97-'98	-1.4	-0.6	-1.5	-1.0	-4.5	2
REAGAN '85-'88	0.0	-0.8	-2.1	-0.2	-3.1	3
KENNEDY-JOHNSON '61-'64	-0.4	-0.8	0.3	-1.6	-2.5	4
CLINTON '93-'96	-0.4	-1.4	-0.8	0.2	-2.4	5
TRUMAN '49-'52	1.2	0.4	0.3	-2.7	-0.8	6
BUSH '89-'92	-0.3	0.9	-1.8	1.7	0.5	7
JOHNSON '65-'68	2.2	-1.1	1.5	-1.3	1.3	8
NIXON '69-'72	-0.1	1.6	0.0	0.1	1.6	9
EISENHOWER '57-'60	-1.2	1.3	0.5	1.3	1.9	10
EISENHOWER '53-'56	0.2	1.6	0.6	0.7	3.1	11
NIXON-FORD '73-'76	4.4	1.5	0.8	1.3	8.0	12
CARTER '77-'80	4.8	-1.3	5.5	0.4	9.4	13

Notes: The change in the rate of consumer price inflation (CPI) is the difference between the average for the term and the average of the last year of the previous term. The change in the unemployment rate is the difference between the average value during the term and the value from the last month of the previous term. The change in the interest rate is the change in the long-term government bond yield during the term. The GDP growth rate is the shortfall of the rate during the term from 3.1% per year (the long-term average value). The change in the misery index is the sum of the first four columns. The rank in the last column goes from lowest to highest misery.

Robert J. Barro is a professor of economics at Harvard University and a senior fellow of the Hoover Institution (rjbweek@harvard.edu).

Take five smart steps to retirement with one easy solution

Call for Prudential's free 5-Point Retirement Review.

Today, you're faced with all-new retirement challenges that call for new solutions. Prudential introduces an idea whose time has come. We call it the 5-Point Retirement Review—a smart way to address the key steps to sound retirement planning, all in one easy work session. You can call today to find out more.

New Realities of the New Retirement

Fact: A recent study concluded that American families are saving at about one-third the rate needed to retire comfortably at age 65.¹

Fact: Today, only 1 in 20 eligible Americans are taking advantage of the tax-free Roth IRA.²

Fact: In some parts of the country, skilled nursing care can cost as much as \$200 per day.³

1 Assess your goals and find the right investment mix. It's the first step in any sound retirement plan. A Prudential professional will help you decide how much you need to invest and how much risk you can take, based on when you'd like to retire. Then you'll create a diversified portfolio including stocks, bonds, mutual funds, and more, to help you retire on time.

2 Make the most of your tax-advantaged investment opportunities.

You have more tax-friendly options than ever before—traditional and Roth IRAs, 401(k)s and 403(b)s, fixed and variable annuities. Prudential can walk you through your choices and help you create a tax-smart investment strategy.

3 Consolidate your retirement assets.

It happens so fast. You open an IRA. You go through several jobs and several 401(k)s. Before you know it, your nest egg looks a little scrambled. We'll help you roll over your assets and manage them in one all-purpose account.

4 Protect your estate. Proper planning now can help ensure that more of your assets end up in the hands of your loved ones—and less in the hands of the IRS. Prudential can show you how life insurance, trusts and gifting strategies can help reduce the effects of taxes on your estate.

5 Make your wealth last. As you draw closer to retirement, it's wise to start thinking about capital preservation. We'll introduce you to sound solutions—like CDs, money market funds and life insurance—that can help you make sure your wealth lasts as long as your retirement.

PRUDENTIAL



5-POINT RETIREMENT REVIEW

Call today for our free brochure *The New Retirement Starts Here*, and we'll also help you make arrangements for your free Review.

**1-800-THE-ROCK
ext. 3227
www.prudential.com**



Prudential

ette Takamura, Asst. Secretary for Aging, Dept. of Health and Human Services, before the Senate Special Committee on Aging, July 18, 1998. ²The Wall Street Journal, December 3, 1998. ³Guide to Choosing a Nursing Home, published by the Health Care Financing Administration—Medicare and Medicaid, U.S. Dept. of Health and Human Services, April 1996. ©1999 The Prudential Insurance Company of America, 751 Broad Street, Newark, NJ 07102. Securities products and services are offered through Prudential Securities, Water Street, New York, NY 10292 (member SIPC), and Pruco Securities Corporation, 751 Broad Street, Newark, NJ 07102, both subsidiaries of Prudential. Since neither Prudential nor its representatives can give legal or accounting advice, you should consult with your personal tax advisor in regard to your particular situation. IFS-1999-A036303

Would your company be interested in saving 38¢?

How many times would you have to
hear this before it became interesting?





...not increased sales by
...over 20,000 of their business
customers to purchase goods
with custom catalogs and pricing
...ailers, is integrating
hundreds of disparate suppliers
via a Web based value chain
management system.

In business seldom are millions saved with one act. More often it's the small improvements that add up to a big impact on the bottom line. And that's where we can help. A commerce solution built on a scalable, flexible Microsoft® platform of Windows NT® Server, BackOffice®, and Office can help your company increase efficiency and productivity, save money and time, and even bring you closer to your customer. Best of all, you can start right now using many of the systems you already have, along with our wide range of partners, to address your specific needs. To find a Microsoft Certified Solution Provider who can help you, or to get the free Digital Nervous System: Commerce Solutions CD, call (888) 674-6686 or visit www.microsoft.com/dns.

Microsoft

Where do you want to go today?

BY GENE KORETZ

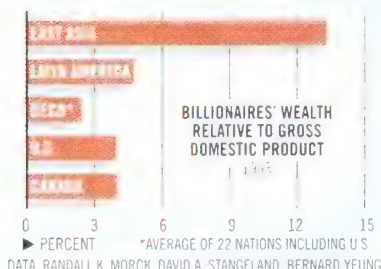
GROWTH AND THE SUPERRICH

Inherited wealth can slow the pace

Those concerned by the growing concentration of wealth can point to a telling statistic: the swelling ranks of billionaires. Their number in the U.S. jumped from 96 in 1991 to 189 in 1998, as tabulated by *Forbes* magazine, while the worldwide tally now exceeds 400.

Aside from the moral qualms such wealth may stir, a key question is whether billionaires are good or bad for national economies. According to a National Bureau of Economic Research study, the answer appears to depend on how large such wealth is relative to national output—and especially on whether it is inherited or newly created.

HOW BILLIONAIRES MATTER IN NATIONAL ECONOMIES



Analyzing 1993 data from some 41 countries, economists Randall K. Morck, David A. Stangeland, and Bernard Yeung found that billionaires' holdings varied from an average 2.4% of gross domestic product in industrial countries to an average 13.3% in East Asian developing countries (chart). They then looked at how two types of such wealth—money created by self-made entrepreneurs and old money in the hands of heirs—affected economic growth rates in subsequent years (1994-1996).

The results were revealing. Adjusting for countries' initial levels of gross domestic product per capita, educational levels, and investment rates, the researchers found that self-made billionaire wealth was associated with faster growth. By contrast, heir-controlled wealth inhibited growth, with high levels—over 6.7% of GDP—subtracting as much as two percentage points a year from the pace of economic activity.

To explain these findings, the analysts

turned to studies by other economists. These indicate that in most countries (but not in the U.S. and Britain), rich families play a big part in their national economies, using leverage and "pyramids" of holding companies to control assets that far exceed their own wealth. Rather than trying to create new wealth, such families tend to use their economic and political clout to protect their holdings from competition.

The authors' case in point is Canada, where 197 of the 246 largest public companies in 1988 were controlled by individual shareholders with at least 20% of voting power. Comparing the heir-controlled companies in this group with similar widely held companies in the U.S. and Canada, they found that they had lower earnings and often slower growth in sales and employees. Founder-controlled companies, on the other hand, grew as fast or faster than their widely held competitors.

Heir-controlled Canadian companies also spent less on research and development than other companies. Indeed, the study found that such outlays tend to be low—and barriers to foreign investment relatively high—in most countries with high levels of inherited wealth.

More important, the winds of competition now appear to be changing Canadian corporate structures. Share prices of family-controlled companies fell in the wake of NAFTA, the authors note, and heir control is declining.

The moral of the story: Opening up trade and capital markets and other steps fostering competition may be the best ways to counter the inhibiting effects of old wealth on national economies—and to ensure that the creative efforts of today's entrepreneur billionaires are not reversed when the goodies are passed on to their heirs.

EUROPE COTTONS TO MUTUAL FUNDS

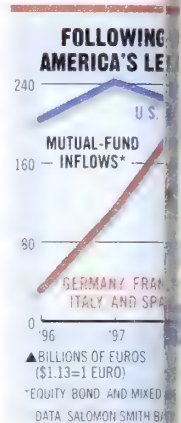
And bond funds get the lion's share

European households have caught America's mutual-fund fever. London economists Michael Saunders and Steven Englander of Salomon Smith Barney report that net inflows to bond, equity, and mixed funds in Germany, France, Italy, and Spain—hit 213 billion euros (about \$241 billion) in 1998, close to the amount Americans ponied up. That's almost double the 1997 pace.

To be sure, Europeans still prefer bond funds to equity funds—by a ratio

of 2 to 1—while Americans favor stocks by the same ratio. But there's little doubt that their growing appetite for mutual funds have helped buoy Europe's stock and bond markets.

Looking ahead, the two economists believe mutual-fund inflows will stay high for a while. The combination of a graying population, possible cutbacks in old-age pensions, and low short-term interest rates is inspiring Europeans to seek for higher-return investments, they say.



SMOKIN' IN THE BOYS' ROOM

Among teens, who's lighting up?

Here's a puzzle for the antismoking lobby: In the mid-1970s, both black and white high school students—both boys and girls—had similar smoking rates. By the mid-1990s, however, white high school seniors were twice as likely to smoke as blacks. And male smoking rates lagged those of females until the mid-1980s, more young men now puff away than young women.

What's behind these changes? The average real price of a pack of cigarettes in the U.S. jumped 63% during the 1980s, one possibility is that they reflect varying degrees of responsiveness to price changes by these groups.

That, in part, is what economist Frank J. Chaloupka of the University of Illinois at Chicago and Rosalie Lieber of the University of San Diego report in a new study. Using recent survey data, they found that males—and especially black males—are far more sensitive to price changes than females.

The problem is that these findings hardly explain the shifts in smoking habits that occurred during the 1980s. Whereas smoking rates should have declined sharply among all groups, they fell only among females, blacks and rose a bit among white males. A possible explanation: Tobacco industry outlays on advertising, which are often targeted at specific groups, nearly tripled between 1981 and 1990, offsetting much of the negative impact of rising prices on demand.

AMES C. COOPER & KATHLEEN MADIGAN

EARNINGS GROWTH CAUGHT IN A VISE

Gap between labor costs and pricing power could blunt the good news

U.S. ECONOMY

The U.S. economy is often compared to an ocean liner—a hard-moving behemoth that's hard to turn around. A better analogy is an armada, with each sector forging its way each year through calm seas or treacherous shoals. On average, the U.S. flotilla is moving faster than economists expected. But there is a widening gap between the speediest ships and the slowest, along with other growing imbalances that are likely to affect the economy at some point in 1999.

IS JOBLESSNESS NEARLY BEATEN BELOW 4%?



For now, consumers are leading the fleet. The latest employment report shows that the traditional engines of consumer spending—jobs and incomes—are going at full steam. Indeed, if the labor trends of the past six months hold, the jobless rate could easily fall below 4% by the end of summer (chart). In addition, the consumer cruiser

of the 1990s has been retrofitted with an engine fueled by the stock market. Equity gains are financing an increased proportion of spending growth. Elsewhere, though, the waters are not as smooth. In particular, profits are stagnant. That means that capital spending, while still mobile now, is losing a prime profit center: internally generated funds. And manufacturing and foreign trade have had to contend with the aftershock of global financial turmoil. The good news is that manufacturing may be stabilizing. The bad news: it may not be.

WHICH GROWTH TILTING toward consumers, several of the imbalances are building, raising new questions about the 1999 outlook. First of all, the pace of consumer spending is far out of line with income growth because of consumers' growing reliance on stock market gains. That brings potential volatility to the economy's most supportive sector. Second, a worsening current-account deficit threatens to weaken the economy and end the benefits of cheaper imports, including lower inflation and greater consumer buying power. Third, and most important, prices are trailing unit labor costs, which means that profits have all but stopped growing, despite a jump in fourth-quarter productivity and surging economic growth. Weak earnings hamper

more than capital spending. They could also fall back on consumers as businesses try to cut their labor costs, or as a leveling off—or an outright drop—in stock prices cuts into the wealth effect on household spending.

For now, households are getting plenty of support from the labor markets, but the flip side of ever-tightening job markets is continued heavy cost pressure on businesses at a time when price hikes are difficult to pass on. The January employment report showed that job markets began 1999 on solid footing. Nonfarm payrolls mushroomed by an unexpected 245,000, and the unemployment rate remained at a 28-year low of 4.3%.

Private-service companies hired 216,000 new workers in January. The January gain in service jobs was slightly stronger than the 209,000 averaged per month in the fourth quarter, and it suggests that the service sector remains strong.

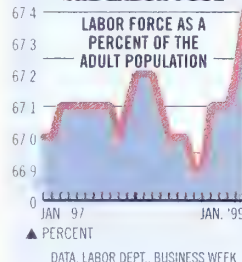
Manufacturing, though, continued to lay off workers. But at least the 13,000 drop in January was the smallest number of pink slips since September. And new factory orders jumped 2.3% in December, to a record \$343.5 billion. Rising demand and fewer layoffs suggest that factory weakness has bottomed out.

Even so, manufacturing payrolls must climb out of a deep hole. Since March, factory jobs have fallen by 285,000. Smokestack America has been paring workers, partly because of falling exports and rising import competition. Steelmakers have laid off 10,000 in the past year, while textile and apparel mills have sacked 110,000. But even makers of high-tech gear are battling a glut of capacity worldwide. Over the past year, manufacturers of computers and electronic components have cut payrolls by 52,000.

IF MANUFACTURING IS RECOVERING, then the scramble to find workers will heat up. That's especially true since businesses will find fewer people available to work. An unprecedented 64.5% of Americans already hold jobs, and the ratio of the adult population in the labor force jumped in January, to a record 67.4% (chart).

History suggests that with labor markets so tight, businesses will have to offer more generous pay packages to attract skilled workers. Surprisingly, though, to-

EVERYBODY INTO THE LABOR POOL



day's extremely tight labor market has not yet translated to the kind of wage acceleration that might touch off inflation worries. In January, hourly pay for production workers increased 0.5%, to \$13.04, and for the year, nonfarm wages were up 4%. That's a shade faster than the 3.8% yearly pace of the fourth quarter, but it's still below the 4.4% rise of last April.

Why aren't wages growing even faster? For one thing, companies are finding creative ways of holding down basic wage rates, such as reclassifying production workers as salaried employees or the increased use of one-time bonuses and other forms of variable pay. Also, businesses continue to invest in capital rather than labor in the effort to boost productivity.

THAT TREND HELPED to produce a productivity bonanza in the fourth quarter as companies were able to use their existing staffs to produce more goods and services. Productivity in the nonfarm business sector grew at a sterling 3.7% annual rate from the third quarter, the largest quarterly increase in nearly three years. However, that big gain partly reflected the exaggerated advance in gross domestic product caused by the end of the strike at General Motors Corp., unseasonably mild weather, and a surge in aircraft exports.

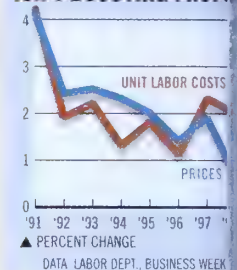
The problem for many companies is that profits are making little, if any, headway, despite solid productivity gains, efforts to hold down labor costs, and a

roaring economy. A preliminary reading of BUSINESS WEEK's survey of 900 companies shows that earnings fell last quarter from a year ago.

The latest productivity report shows why. Last year, unit labor costs rose 2%—not bad given that a strong 2.2% gain in productivity offset much of the 4.2% jump in wages and benefits. However, businesses were able to raise prices by only 0.7% (chart). By definition, that means profit margins are shrinking. Despite excellent productivity growth last year, the lack of pricing power opened the largest deficit between price increases and growth in unit labor costs in 11 years.

For 1999, corporate earnings growth will not improve unless that gap closes. That could happen in only two ways, both of which would be a negative for the economic outlook. First, prices could accelerate—but the Federal Reserve would thwart that with higher interest rates. Second, businesses could cut costs—but that would hurt jobs, incomes, and consumers. And either way, the stock market would be unhappy as well. So don't be surprised if sagging profits turn out to be the headwind that alters the U.S. armada's course this year.

WHY A STRONG ECONOMY ISN'T BOOSTING PROFITS



SOUTH KOREA

A SHAKY RECOVERY GETS UNDER WAY

Is South Korea on the mend? Recent signs are hopeful: Production, driven by exports and lower inventories, is recovering, and domestic demand is stabilizing. Most analysts believe that last year's economic slide bottomed out at yearend, and the International Monetary Fund has raised its 1999 growth forecast from barely positive to 2%. The economy plunged 5.5% in 1998.

However, the road to recovery will be rocky, mainly because of slow progress on economic reforms and because the footings under both foreign and domestic demand remain shaky. Exports are especially vulnerable to slow world growth this year, and ex-

port gains have been narrow, concentrated in semiconductors. Also, the won has strengthened 57% vs. the dollar since December, 1997, hurting competitiveness.

Interest-rate cuts and an easing of the credit crunch are helping domestic demand, but the slow pace of reform clouds the outlook. Companies are reducing debt, excess capacity, and labor costs, mainly through government-directed mergers. The resulting uncertainty and labor

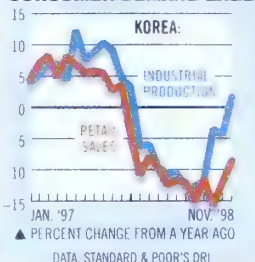
unrest are limiting growth in business and consumer spending.

The best news is the improving balance of payments. Korea's current account is firmly in the black. The January trade surplus was

\$695 million, though imports jumped 15.4% from a year ago, while exports rose only 3.7%—a win in semiconductors. Nevertheless imports of capital goods surged 23.7%, suggesting renewed interest in business investment, helped by government pump-priming. Korea halved its external debt last year, and in January, foreign direct investment increased sevenfold from a year ago, reflecting Korea's return to an investment grade credit rating.

The improved external position will support further easing in monetary policy, as soft domestic demand keeps a lid on inflation, projected by the IMF at 3% in 1999. Also, the government plans to spend most of what it has budgeted for 1999 projects in the first half, which should ease some of the negative effects of reform.

OUTPUT TURNS UP, BUT CONSUMER DEMAND LAGS



YOU'VE GOT TO SEE IT IN

EPSON

COLOR.

HERE YOU
SEE HER
EVERY
GOLDEN
STRAND
OF HAIR.

HERE YOU
SEE THE
PROJECTOR
THAT WEIGHS
LESS THAN
SHE DOES.

Just like her, this incredible projector can easily hold an audience. Because instead of having only one imaging processor like other ultraportables, the PowerLite™ 5500C was born with three – for the brilliance of a large projector, without the bulk. In fact, at 650 ANSI lumens and only 9 1/2 pounds, this little baby will have everyone going ga-ga.



Epson PowerLite 5500C

THE NEW POWERLITE 5500C ULTRAPORTABLE PROJECTOR. 3 LCDs BRIGHT - 9 1/2 LBS LIGHT.

Epson®, the world leader in high-performance portable projectors, brings you a full-featured ultraportable with: Exclusive SizeWise™ technology that allows compatibility with computer resolutions up to 1024 x 768 • Zoom lens, remote control and amazing SRS 3D sound • Dedicated phone support and RoadService exchanges, usually within 24 hours.

For more information or a free video on Epson's award-winning line of projectors,
call 1-800-442-1977 (ask for Oper. 3111) or visit www.epson.com.

THE INTERNET ECONOMY

As the Web turbocharges growth, it's bringing fresh risks



When you drive a car at 60 mph, you get to your destination faster—but even a pothole in the road can turn into a disaster. That, in a nutshell, sums up the dilemma of the U.S. economy these days.

There is no doubt that the U.S. is in the midst of one of the greatest capital spending and stock market booms in history. Business spending on equipment, adjusted for inflation, has increased during the last four years, a pace matched only by the best stretch of the 1960s. The stock market is up by an astounding 160%.

The gaudiest numbers, of course, belong to Internet companies such as eBay Inc. and Yahoo! Inc., whose stock gains during the past year inspire either visions of easy wealth or, from the sidelines, plain old envy—or revulsion at the excesses of greed. Despite dropping by 20% on Jan. 29, the Chicago Board Options Exchange Internet Index is still up 200% just since September, 1998.

WINNOWING OUT. But these figures are only a measure—and an imprecise one—of a larger phenomenon. Like the railroad boom of the 1890s and the automobile-driven expansion of the 1920s, which also produced surging market, the Internet boom stems from the addition of a whole new stratum of industry to the economy. The rush to adopt Internet technology to all sorts of

IF THIS CYCLE SLOW

Massive investment is driving growth, but it also makes for steeper declines

The Web is adding

and to create the hardware and to take the Web everywhere is generating a tremendous surge in growth, investment, and new business creation. In the long run, this commitment of resources will produce a new industrial sector that will flourish in the future. Just as auto makers of the 1920s became giants of the 1950s and 1960s, today's outpouring of innovation is creating companies that will generate wealth in the E-commerce era.

ENDS. But such investment-led booms that occur when new technologies are emerging will inevitably come to an end—often in ugly ways. Where along the way there is a sorting out of winners and losers. Survivors consolidate and thrive. Many companies that lead the boom die; once-promising innovations turn out to be dead ends. And much of the stock market value created in the boom simply evaporates, as investors realize what makes business sense and what doesn't. The sorting-out process triggers disruptions in the rest of the economy as well.

The pattern from history is clear. In the 1920s, for example, the single driving force for growth was the boom in auto production, along with a

Corp. survived and even continued to be profitable, but many others, such as Auburn, Franklin, and Pierce Arrow, disappeared in the following years, along with most of the money of the people who invested in them.

Eventually, something similar will happen to the Internet-led boom as well. There have already been a series of scary, if brief, plunges in Net shares, most recently in early February.

Many on Wall Street would welcome a revaluation of Internet shares to more sustainable levels. But if such a move triggers a pause in the investment boom, the economy could suffer. The tech sector now looms so large in the economy that overall growth could falter. The labor market, for example, has become increasingly dependent on job growth in New Economy industries such as software, communications, and consulting. BUSINESS WEEK calculations show that New Economy industries are adding jobs at a 3.7% rate, twice as fast as the rest of the economy (chart). These well-paid jobs have helped fuel a strong rise in consumer spending—but when the boom pauses, many workers may find themselves unpleasantly surprised by layoffs and falling incomes. The result will be to remove one of the

year. True, with rates low, much of the new borrowing went to refinance existing debt. Nevertheless, nonfinancial corporate debt outstanding rose by 11%, the fastest rate since the mid-1980s.

For now, despite the gyrations in tech stocks, there is no sign that the Internet-infotech boom is slowing yet. Business spending on computers and communications equipment rose at a strong 14% rate in the fourth quarter. According to a new report from the Semiconductor Industry Assn., global chip sales in the fourth quarter increased by 10.5% over the third quarter, after falling for most of 1998.

UP AND UP. Indeed, the performance of the economy keeps confounding skeptical economists. The latest good news: On Feb. 9, the Bureau of Labor Statistics announced that productivity rose at a 3.7% rate in the fourth quarter, the fastest rate in three years. Forecasters who had been predicting 2% growth in gross domestic product for 1999 are now revising their estimates to 3% or more.

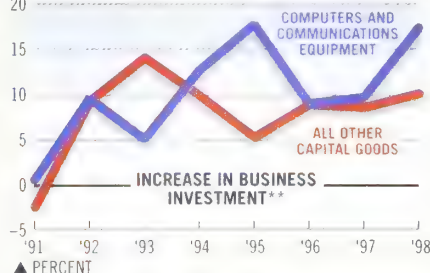
The gains in productivity point up one of the advantages of U.S.-style capitalism: the ability to move human and financial resources to the cutting edge of the economy quickly. From that point of view, the stratospheric rise of many In-

THE NEW ECONOMY IS CREATING JOBS...



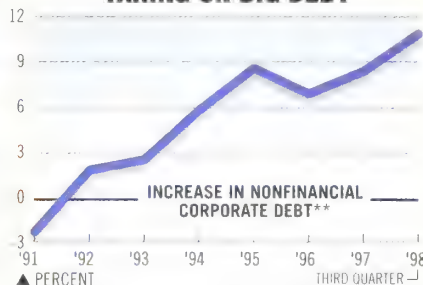
*INCLUDES INFO-TECH MANUFACTURING AND SALES, SOFTWARE, AND COMPUTER SERVICES, COMMUNICATIONS, INFORMATION, FINANCIAL SERVICES, CONSULTING, EDUCATION

...AND BOOSTING CAPITAL SPENDING...



DATA: BUREAU OF LABOR STATISTICS, BUREAU OF ECONOMIC ANALYSIS, FEDERAL RESERVE BOARD, BUSINESS WEEK

...BUT COMPANIES ARE TAKING ON BIG DEBT



**FOURTH QUARTER TO FOURTH QUARTER

expansion of capacity in related industries such as steel, rubber, and highway construction. The Standard & Poor's index for carmaker stocks more than doubled between 1925 and the end of 1929. During the same period, the stock market as a whole rose 144%. When auto sales hit their peak in 1929, that signaled the end of the boom for the autos—and the rest of the economy. In the next four years, carmakers' stock prices dropped as fast as they had risen. A few survivors such as General Motors

major props from economic growth.

The other worrisome factor is that, with profits sluggish, companies have been taking on a mountain of debt to finance capital spending. That means when the boom ends, some companies may have a tougher time weathering a slowdown. According to Securities Data Co., about \$650 billion in investment-grade corporate debt was issued in 1998, up 39% from the previous year. High-yield debt was up about 29%. By contrast, new equity issuance has been about flat, at just under \$120 billion per

year. True, with rates low, much of the new borrowing went to refinance existing debt. Nevertheless, nonfinancial corporate debt outstanding rose by 11%, the fastest rate since the mid-1980s.

Equally important, the massive market capitalizations of companies such as Amazon.com Inc. and America Online Inc. are a wake-up call for existing businesses, forcing them to reorient their spending and hiring to cope with the

new stratum to the economy—as rails and autos once did

rise of the Internet. That explains much of the surge in capital spending and borrowing that's now taking place. The Internet companies themselves have little debt, but the same is not true of their suppliers and competitors.

Some of the biggest borrowers were telephone companies, which were in-

vesting in new infrastructure and capacity. In 1998, for example, rapidly expanding Frontier Corp., a Rochester, N.Y.-based telephone company, boosted long-term debt by 44%, to \$1.3 billion. Barnes & Noble Inc., facing tough competition from Amazon.com, was forced to increase long-term debt by more than

50% during the last two years to expand and keep up.

Are disruptions in the offing? Absolutely. But there's no denying high speed innovation and investment have left the U.S. in far better shape than it was just a few years ago.

By Michael J. Mandel in New

COMMENTARY

By Karen Pennar

THE OPPOSITE OF THE 'WEALTH EFFECT'

Feeling flush? It's hard not to. The value of stock market investments held by American households has grown by an astonishing \$6.6 trillion during the past four years, or about \$60,000 in spare change for each household. With a windfall like that, there's no reason to skimp on the new car; no reason to sweat over savings.

If this sounds like what's happening in your house, you're in good company. Consumer spending, buoyed by the wealth effect, grew by 4.8% in real terms in 1998, while savings slid into negative territory. During the four-year period just ended, economists estimate that consumers spent an extra \$200 billion to \$330 billion, or about \$3 to \$5 for every \$100 of net worth they added.

TERRA INCOGNITA. The big fear is that the wealth effect will work in reverse if the market tanks. There are two ways to think about this possibility, one of them reassuring, the other far less so. First, the good news: History shows that consumers are unmoved by fleeting changes in stock prices. Changes in wealth have to be sustained to bring about a change in behavior. There were fears last fall that a new bear market was in the offing, but stock prices rebounded—and spending grew 4.4% in the final quarter of 1998. Similarly, stock prices recovered within six months after the October, 1987, crash, and there was only a small impact on spending. But the 1973-74 bear market dented consumption (chart).

Now, the bad news: While it takes a sustained decline in stock prices to make consumers change their spend-



ing habits, it's far less certain how great the reaction might be if it comes. Economist Mark M. Zandi of Regional Financial Associates Inc. in West Chester, Pa., warns that while rising net worth boosts spending \$4 for every \$100 gain, spending might fall by as much as \$7 for every \$100 decline in wealth.

There are a couple of reasons why this might be the case. First of all, stock ownership is much more wide-

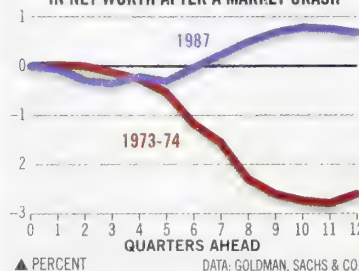
spread than it once was, with millions of Americans now investing in the market through 401(k) retirement plans and other vehicles. The very rich can see their portfolios devastated yet manage to maintain spending levels. But Americans with incomes of middle and upper-middle levels may have been counting on those recent stock market gains. As the market soared, they may have reached "target" wealth levels far more rapidly than they had expected to—then commenced to spend and borrow more freely as a result. If these investors see their net worth evaporating, they may cut spending sharply and pay down debt.

Then, too, there's the confidence factor. In recent years, says Christopher D. Carroll, an economist at Johns Hopkins University, consumer spending seems to depend more on how confident about the future consumers feel. A decline in sentiment linked to a sustained plunge in stock prices could eventually provoke "a fairly vicious decline in consumption," warns Carroll.

Life-cycle and permanent income theories of consumption posit that people base their spending and saving decisions on what they believe their financial resources and needs will be over the long haul. The stock market's huge gains have been accumulating for long enough to be included in such long-run assumptions, making the wealth effect a powerful force in the economy. But it is a force whose impact on the downside has yet to be reckoned.

BEAR MARKET BLUES

EFFECT ON CONSUMPTION OF A DECLINE IN NET WORTH AFTER A MARKET CRASH



Senior Writer Pennar covers economics

IN CLINTON AND THE REPUBLICANS EVER GET BACK TO BUSINESS?

h Democrats and GOP Right may sabotage compromises

st December, Representative Brian Bilbray (R-Calif.) took a deep breath and voted to impeach Bill Clinton. But as the President's Senate winds to a fitful close with Clinton standing, Bilbray is sweating. The San Diego moderate only narrowly won reelection. And the recent trial in the Clinton case—led unpersuasively by his House colleague Henry Hyde (R-Ill.)—is unlikely to have many new supporters for Bilbray. Now, fearful that imminent backlash will cost the party control of Congress in the upcoming election, Bilbray has joined a growing number of House Republicans begging their leaders to put their pitchforks down. "We've got to get on with it," he says. "We can get things done," he says. "It happens to make Clinton look good, it gives a damn?" He also says that public approval of the GOP is at its lowest point since Richard Nixon's impeachment, and Bilbray & Co. want the party to drop its fixation with White House scandal and push an agenda that won't

moderates to buck right-wing hard-liners not anxious to compromise. "I've heard more talk of meaningless compromise in the past year than I have ever heard in American politics," thunders Christian Coalition founder Pat Robertson. "We need leaders of backbone and courage who will fight for principle."



Polls show that public approval of the Republicans is the lowest in decades. That could carry through to the elections in 2000

HYDE: CAN HOUSE REPUBLICANS END THE FIXATION ON SCANDAL?

Republicans look like out-of-touch idealists. "We have to make it clear we're not the anti-Clinton party," Representative James C. Green (R-Pa.), "but the small-government, better-government, better-education party." **IDS.** Sounds like a comeback plan. Its only one problem: Republicans likely won't be able to pull it off. The GOP has agreed on the broad outlines of an agenda focusing on tax cuts, Social Security fix, modest education reform and more defense spending, membership at odds with each other over the details. And if impeachment has proven wrong, it is how difficult it is for party

The Republican rehabilitation program also could be stymied by Democrats who are more than happy to watch the clock run out on the GOP Congress. Already salivating over the chance to run against "do-nothing" Republicans in 2000, the Dems are unlikely to give major concessions. Between the right and left, those Republicans trying to get back to middle ground are being squeezed out.

Despite such obstacles, there are still some opportunities for congressional Republicans to salvage something of the 106th Congress. The demise of former House Speaker Newt Gingrich (R-Ga.) helps. A polarizing figure, Gingrich was

barely on speaking terms with House Minority Leader Richard A. Gephardt (D-Mo.). New House Speaker J. Dennis Hastert (R-Ill.), a more traditional conservative, is quietly dismantling the investigative machinery that Gingrich geared up to probe real and imagined Administration scandals. Hastert also is courting Democratic allies for GOP initiatives and warning social conservatives not to bog down spending bills with amendments on hot-button issues, such as abortion.

CUTTING MOOD. Playing ball with the White House, however, will be key. Clinton seems willing and even eager to work with his former GOP accusers to help secure a fix for Social Security and

a legacy for his scandal-plagued Presidency. In return for cooperation, the White House will even consider some limited tax cuts. That's fine, if only the Republicans could agree on which taxes and how much to cut.

The failure to agree—even on the signature tax issue—has some business supporters fuming about the GOP. "The Republican Party has to reaffirm to the American people what it stands for," says Barry K. Rogstad, president of the American Business Conference, a group of mid-size companies. "It is bouncing all over the place." Ironically, the one issue that the Republicans may be able to coalesce around is a pet project of Clinton's: tax credits to encourage school construction and renovation.

But conservatives are not giving the Hill Republicans much room to maneuver. "People are not inspired by a party that does a lot of dealmaking with the opposition," warns Amway Corp. president Dick DeVos, a prominent conservative activist.

For party pragmatists, DeVos' hard-line stance could mean two more years of stalemate. And if public anger over impeachment smolders into 2000—the way irritation with the GOP over the 1995-96 government shutdown tipped the 1996 elections—the Republicans will face a Y2K problem that may prove far more unfixable than the computer bug.

By Richard S. Dunham and Amy Borrus in Washington

COMMENTARY

By Joseph Weber

A NAFTA DOLLAR: NOT NOW, MAYBE LATER

Now that the euro has had a successful debut, is it time to start thinking about a dollar bloc in the Western Hemisphere? A few brave policymakers are suggesting that North American Free Trade Agreement members—the U.S., Mexico, and Canada—at least consider the idea.

A North American version of the euro is unlikely—and probably unnecessary. For starters, the U.S. economy dwarfs its NAFTA neighbors, unlike the European Union, which brings together 15 relatively similar, densely populated, industrialized states. And pushing for a new unit to replace the dollar, already a global reserve currency, is apt to be an unwinnable political crusade in the U.S. More practical would be dollarization. Since the NAFTA partners already do lots of business in greenbacks, adopting the dollar outright seems logical. If NAFTA spreads, as free-trade advocates hope, dollarization throughout the Americas could follow.

The idea of such a dollar bloc has gotten little respect so far. One reason: traditional Canadian fears of being swallowed up by their southern neighbor. Lately, the most high-profile advocates have been Quebec separatists. Always ardent free traders and proponents of strengthening the relationship with the U.S., their endorsement only makes the idea even harder to swallow for Ottawa.

DOLLARIZATION. Still, the proposal offers clear pluses. Corporate and private investors, for example, would more willingly put money in places where they don't have to fear currency swings. That's why prominent economists and business leaders in Mexico endorse the idea. Trade would also be simpler and cheaper without currency hedging costs. Dollarization, notes Michael Walker, executive director of Vancouver's Fraser Institute, "would make us all one economic space."

And dollarization would end the risk of speculators fomenting currency

disorder, à la Asia. Currently, Brazil is trying to cope with its budget crisis with floating exchange rates for the real. But if that tactic doesn't work, policymakers might clamor for dollarization.

Indeed, the dollar is already embraced throughout the hemisphere. Commodities such as Canadian paper and pulp and Venezuelan oil have long traded in dollars and the elite in Latin America use the greenback as the benchmark for high-value items such as real estate. While Panamanians use their own coins, they rely on U.S.

able—objections. While the Europeans have surrendered control to an autonomous European Central Bank with directors from across the Continent, the U.S. is likely to insist on dictating monetary policy because of its size. How then would policy be made around this new superdollar, and would the U.S. be forced to give seats at the Federal Reserve table to outsiders? Inevitably, this would lead to disagreements, particularly when the U.S. is less anxious to stimulate growth than other NAFTA nations.

There's more at stake than national prestige. Countries might have to lose the ability to devalue, a time-honored tool for spreading economic pain. And there would be pressure on Canada and Mexico to harmonize their tax

and budget policies with the U.S. to avoid capital flight. Outside NAFTA, in the other wild, disparate Latin countries, the coordination problems would be worse. "One size doesn't fit all," says Barry Eichengreen, an economist at University of California at Berkeley.

Adopting U.S.-style economic principles, however, might address nagging problems. For instance, cutting Canadian taxes below 50% marginal rates could spur enough growth to bring down a jobless rate, which at nearly 8% is almost twice the U.S. level. Likewise, if Latin countries

could wrestle monetary policy away from waffling governments, investors might feel more confident.

Few in the Americas seem ready for a single currency. But if the euro gives the Europeans a competitive edge, the NAFTA dollar may be inevitable. Politicians who once won points from nationalist voters for quashing the idea may find that history puts them in the same camp as the mercantile opponents of free trade.

Weber covers the Canadian economy for *BUSINESS WEEK* in Toronto.



GREEN LIGHT:

Investors are less anxious when they don't have to fear currency swings

dollars for their paper money. And Argentina now operates with a currency board, backing its peso with U.S. dollar reserves. President Carlos S. Menem also has his economic ministry studying how full dollarization might work. "Unofficial dollarization is happening everywhere," says Steve H. Hanke, a Johns Hopkins University economist.

Of course, there remain some major—perhaps insurmount-

DOES BIG OIL WANT SAUDI ARABIA OVER A BARREL?

Wanting debt may force it to offer access to reserves

March, Exxon Corp. CEO Lee R. Raymond and Mobil CEO Lucio A. are planning a What could induce the execs, who are with the biggest in history, to off for a few days? simple. They're ed to Riyadh, e they hope to po their new compo- sitor to Saudi Ara- 261 billion barrels w-cost oil. Down ine, even a small of the Saudi res- es—one-quarter of lanet's total—could y improve the for- s of the world's st oil company. it is the desert lom ready to let Oil back in, as it ested last Septem- Yes and no. Yes, Saudis recognize they need capital echnology from the Western pros- they exiled decades ago. But no, aren't going to offer the cheap oil Noto, Raymond, and other oil execs hoping for when the Saudis first ested new investment last fall. r now, Saudi Arabia is drawing a n the sand: U.S. and European icers can help develop the nation's y untapped natural-gas reserves. o finding and lifting oil, not now. is the message that U.S. Energy tary Bill Richardson heard when rived in Riyadh Feb. 6 to bang rum for U.S. companies. "We need companies for many things, but or that," says Ali Al-Naimi, Saudi a's oil minister. "This is what we st. It's our bread and butter." ll, the oil companies have reason to Despite the apparent backpedaling the invitation Crown Prince Abdul- sued to oil execs in Washington last mber, Saudi Arabia may ultimately to offer some access to its oil re- s. Why? There are the obvious po- reasons to cement a strategic rela- ip with the U.S. But there's



RELUCTANT HOSTS

Crown Prince Abdullah (above) and oil minister Ali Al-Naimi (right): So far, oil is off limits



another reason: The Saudi economy is in trouble because of the steep drop in world oil prices, which, despite Saudi hopes, are unlikely to bounce back soon. As incongruous as it may seem, the Saudis could be in danger of joining economically ravaged nations like Russia and Brazil if they don't attract foreign capital. Saudi Arabia's oil-rich neighbors are already ahead in wooing outside investment. In Qatar, for example, Mobil, France's Total, and other companies have been pouring billions into gas projects. In Kuwait, the national oil company is looking for partners for oil field development. Then, there's Iraq. If and when U.N. sanctions end, Saudi officials fear, it could challenge the kingdom for dominance in the oil market.

These pressures, oil experts are betting, will force the Saudis to open the door, albeit gradually, to their oil fields. And as one U.S. oil exec puts it: "Those companies that can get a foot in the door and do a good job will clearly get the first shot if the Saudis decide they want outsiders to develop new oil fields."

No one is more aware of Saudi Arabia's faltering economy than 73-year-old Crown Prince Abdullah—who is increasingly calling the shots in Riyadh. To plug huge holes in the national budget created by the 40% collapse in oil prices since early 1998, Abdullah is considering sweeping economic reforms, including even a 7% sales tax to narrow the deficit. "Real policy changes are seriously in the wind," says Kevin Taekker, chief economist at the Saudi American Bank in Riyadh.

RIYAL TROUBLE. Saudi Arabia is hardly broke, but it is a one-commodity economy. In 1998, as oil sank, the economy shrank 12%, and 1999 is unlikely to be much better. "For years we thought we were diversifying and finding other income," says Said Al-Shaikh, chief economist at Jeddah-based National Commercial Bank. "But the collapse in oil prices has shown us that diversification has not succeeded."

Incredible as it seems, a Brazil-style meltdown is not unthinkable. Like Brazil, the Saudis have been on a spending binge, which has pushed its national debt to \$120 billion, almost 120% of GDP. Even after steep cuts in defense spending, expenses are running \$1 billion a month above revenues this year. The Saudi Arabian riyal, like Brazil's real, may face devaluation.

That bleak outlook has pushed the Saudis back toward Big Oil. Riyadh would like \$30 billion to \$40 billion to harness natural-gas resources for vast new projects in power generation, water desalination, and petrochemicals. The big question is whether companies like Chevron, Texaco, or Exxon Mobil will be interested without the rich profits only oil can bring. Al-Naimi recognizes the problem: "The returns from producing oil are not 10% or 20% or even 100%, they are in the thousands of percent."

But Al-Naimi claims net returns of up to 30% on gas investments should keep companies happy. That remains to be seen. If the Saudis don't get any takers during negotiations later this year, they just may be forced to throw in an oil field or two to sweeten the pot.

By John Rossant in Riyadh



INVESTIGATIONS

RITE AID TELLS ALL— AFTER THE STORM BREAKS

An SEC filing details family ties to the drugstore chain

At first, Rite Aid Corp. dismissed the allegations in a November lawsuit by a former employee. The charges involved alleged conflicts of interest arising from Rite Aid's dealings with companies whose owners included members of the family of Alex Grass, Rite Aid's founder. In a Jan. 20 letter to *BUSINESS WEEK*, after the company was asked about the litigation filed by former Executive Vice-President Kevin J. Mann, Rite Aid CEO Martin L. Grass, son of Alex wrote: "I should reiterate that I do not own any interest, whether equity or income rights, in any entity which does business with Rite Aid Corp."

In the last few weeks, however, Rite Aid has been shedding new light on the Grass family's ties to the \$12.6 billion drugstore chain—after the connections began to surface, starting with a *Wall Street Journal* story on Jan. 29. In a Feb. 9 8K filing with the Securities and Exchange Commission, the company disclosed connections between Rite Aid and several businesses and a real estate venture in which Grass family members have stakes. That filing came six days after *BUSINESS WEEK*, as part of a two month investigation, asked Rite Aid about documents the magazine obtained showing that Martin Grass's sis-

ON THE RECORD: CEO Martin Grass asked for an internal review

ters were investors in brokerage that goods to Rite Aid. the 8K comes after Aid acknowledged, in response to the *Journal* story, that CEO Grass

had interests in partnerships that two properties on which Rite Aid operated stores.

Rite Aid declined to comment whether the relationships outlined in the Feb. 9 filing should have been disclosed earlier. In a Jan. 13 interview with *BUSINESS WEEK*, Grass did acknowledge his interest in one property but said it was "below the threshold that required disclosure."

The Feb. 9 filing says the matter surfaced after Martin Grass requested an internal review following the *Wall Street Journal* article. That review, the filing says, found no previously undisclosed business relationships between Grass and Rite Aid.

A PATTERN? Corporate governance experts say it's unusual to have so many ties between a longtime public company and the founding family. "The size of the number is unusual," says Charles Elson, professor of law at Stetson University. "It is a pattern that could make shareholders uncomfortable."

BUSINESS WEEK's inquiry into Rite Aid's ties to the Grass family began shortly after Mann filed suit. Mann, who had managed the chain's purchasing functions, alleged that his firing in June 1998, and a subsequent company push of his relationships with Rite Aid in chasing brokers, was an excuse to leave the broker system. Mann also alleged that, with Martin Grass's knowledge, Rite Aid bought more than \$50 million a year from companies in which Grass family members have an interest.

Rite Aid has moved to have Mann's suit dismissed. In November, after

RITE AID: A STORY UNFOLDS

NOV. 12, 1998 Kevin J. Mann files suit against Rite Aid over his dismissal. Lawsuit alleges, among other things, undisclosed ties between Rite Aid and the Grass family.

DEC. 9, 1998 Rite Aid files a motion to have Mann's lawsuit dismissed.

NOV. 18, 1998 Rite Aid Vice-Chairman

Franklin Brown denies all the charges in Mann's suit in an interview with *BUSINESS WEEK*.

JAN. 20, 1999 Rite Aid CEO Martin Grass, in a letter to *BUSINESS WEEK*, says he does not have an interest in any entity doing business with Rite Aid.

JAN. 29, 1999 After *The Wall Street Journal*

publishes a story on Rite Aid, company discloses that Grass is a partner in two companies that own property on which Rite Aid stores have operated. Company begins internal review of "related party transactions."

FEB. 3, 1999 *BUSINESS WEEK* submits questions, based on documents it has

obtained, to Rite Aid asking about interest in Martin Grass's sister have in a company that represented manufacturers to Rite Aid.

FEB. 9, 1999 Rite Aid files 8K with the Securities & Exchange Commission outlining several previously undisclosed ties between the company and the Grass family



Why does the moon
stay in the sky?

What makes
the stars twinkle?

How does
the Internet work?

Actually, it works very well. Maybe because so much of it runs on Compaq. Four out of the five most popular Web sites are powered by Compaq. Hundreds of millions of hits are handled by Compaq platforms every day. Three-quarters of the top ISPs have standardized on Compaq for their Windows NT[®] based Web hosting. And if you've ever received e-mail, chances are, we helped get it to you. To find out how the Internet can help grow your business, feel free to ask the source at 1-800-AT-COMPAQ. Or visit www.compaq.com/moon.

COMPAQ

Better answers.[™]

© Microsoft Corporation. All other names are trademarks or registered trademarks of their respective companies.

suit had been filed, Rite Aid Vice-Chairman Franklin C. Brown told BUSINESS WEEK that Mann's allegations were groundless. As for Mann's dismissal, Martin Grass said in the Jan. 13 interview, "He was replaced, we've said all along, for performance."

But documents obtained by BUSINESS WEEK in early February show that Elizabeth Grass Weese and Linda Grass Shapiro, sisters of Martin Grass, have been shareholders of a brokerage, The Crestpointe Corp., that represented manufacturers selling to Rite Aid. Kevin Mann's brother, William A. Mann III, was listed as president. Crestpointe represented companies selling \$40 million to \$50 million a year to Rite Aid, William Mann says. Crestpointe was paid by the manufacturers, not by Rite Aid. "Over the years I conducted business with the buyers and category managers at Rite Aid, not Kevin," he says. "This fact was known to Rite Aid top management, including Martin Grass."

OTHER TIES. When BUSINESS WEEK first asked about Crestpointe, company Vice-Chairman Brown responded on Feb. 3 that he and Martin Grass had never heard of the company. Brown added that he and Grass knew of no connection between Crestpointe and Ms. Shapiro and Ms. Weese. When asked about Crestpointe the same day, Linda Grass Shapiro said, "You can talk to my brother." Elizabeth Grass Weese could not be reached.

The following week, in the 8K filing, Rite Aid said it had learned that Ms. Weese and Ms. Shapiro each held 12.5% stakes in Crestpointe. Rite Aid also said it had uncovered other ties between the Grass family and the company. In 1992, for example, Alex Grass directed that stakes he and Martin Grass were turning back to a company called I.C. Imports be issued to his daughters. The small importer of toothbrushes and other items from Israel sold over \$1 million annually to Rite Aid in recent years.

Franklin Brown, vice-chairman at Rite Aid, wrote in January that the board knew of Martin and Alex's investment in I.C. Imports, but it struck him as "insignificant." "On reflection," Brown wrote, "I should have sharpened my inquiries and made a proxy disclosure." Alex Grass, Ms. Weese, and Ms. Shapiro did not return calls seeking comment on I.C.

Rite Aid's proxies over the last three years do not mention the Grass ties to Crestpointe or I.C. Imports. Perhaps in the future, those filings will provide a more interesting read.

By Amy Barrett in Philadelphia and Karen Stevens in New York

CHIPMAKERS

WILL PENTIUM III REVIVE THE PRICEY PC?

Intel says its powerful new chip will make surfing more fun

Back in the salad days of 1996, Intel Corp.'s "technology treadmill" was so efficient. Every few months, the company rolled out a faster micro-processor, and PC users, eager for more speed, snapped them up in computers with average sticker prices of \$2,000. For every Pentium, Intel pocketed over \$200.

Those days are long gone. Models costing less than \$1,000 now dominate the market (chart). Cheap PCs use processors that cost as little as \$50, which can't produce Intel's customary profits. Worse, despite aggressive price cutting, Intel has only one-third of the market at the low end.

So Intel is determined to lure buyers back to pricier machines—with its new Pentium III chip. The first Pentium IIIs will cost between \$500 and \$700 and the PCs they go into, which are expected to hit the market in February, will cost around \$2,000. On the strength of Pentium III and other high-end chips, analysts expect Intel's profits to climb 35% this year, to a record \$8.2 billion.

But what could make consumers pay twice as much for a PC? The Pentium III not only is fast but also includes features to crunch a stream of video, audio, and 3-D graphics pouring in from the Internet. "We're looking to extend the Internet experience," says Jami K. Dover, Intel's vice-president of sales and marketing.

The chip giant has budgeted a massive \$300 million to convince buyers that they need that "extended" experience. In addition to a new ad campaign, Intel is working feverishly to persuade Web companies to beef up their sites with multimedia content that requires the power of a Pentium III. PC makers that

run ads on such sites will be reimbursed 75% of the cost by Intel, instead of normal 50%.

Will the strategy work? Sean McAteer, an analyst with Jupiter Communications, sees little payoff from selling the Web with Pentium III. "Large, consumer-oriented sites will optimize for the Pentium III for several years" because they want to reach the masses who use cheaper PCs. Analysts doubt Intel will turn the tide.

cheap PCs. "It will pull the mainstream up to higher price systems," says Jaffray analyst Anand Kumar, who predicts that Pentium II prices will fall rapidly to \$1,500 or less.

Rival AMD will help that process along. On Feb. 2, plans to unveil its Pentium III competitor, the K6-3. In the past, Intel has usually been months, or even years, ahead of clones at the top end, enabling it to keep prices high.

But AMD, just tenth Intel's

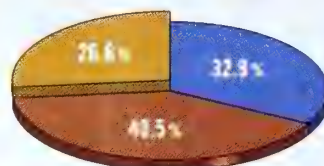
can't match the giant's marketing blitz. On Feb. 1, billboards began appearing in New York, Los Angeles, and San Francisco showing a blue door marked "This Way In." Television and print ads rolling out in the next two weeks will explain that when the door opens, "the Internet's going to be a whole lot more fun." But all the promise of faster, indeed all the power of all the Pentium IIIs—may not make much difference to consumers whose biggest problem is waiting for pokey pop-up lines to deliver their data. Analysts figure it could take three more years before high-speed connections reach a million homes. Until then, a lot of Pentium III PCs may be sitting around without much to do.

By Andy Reinhardt in Santa Clara, Calif.

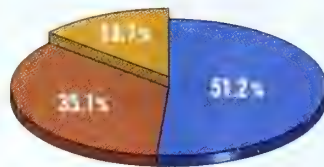
DISAPPEARING ACT

PREMIUM PCs ARE A SHRINKING PIECE OF THE MARKET

Legend: <\$1,000 (Blue), \$1,000-\$1,500 (Red), \$1,500+ (Yellow)



FOURTH QUARTER 1997



FOURTH QUARTER 1998

DATA: ZD MARKET INTELLIGENCE



Do computer
makers believe that
every time they
come out with
new product,
I get a new budget?

Reality check: If you've invested in technologies like OpenVMS[®] or NonStop Himalaya, you count on them to run your business—and they do it well. But with IT rapidly evolving, there are opportunities you'd like to seize. So Compaq is extending these

environments to incorporate new elements like Web-enabled capabilities, Windows NT interoperability and 64-bit performance. Which means your IT infrastructure can remain firmly in place when new applications like e-commerce come online. We offer not just systems but hardware, services and solutions to make it all work together. So your past investments will continue reaping future returns.

To learn more, call 1-800-4-A-COMPAG. Or visit www.compaq.com/investments.

COMPAQ Better answers.[™]

TRANSPORTATION

AIRLINES MAY BE FLYING IN THE FACE OF REALITY

Big carriers are adding flights faster than demand can justify

In recent years, U.S. airline executives have been assuring investors that they've grown up. They keep insisting that the industry is now run by a more disciplined breed than the market-share-chasing, profit-decimating managers of yore.

Yeah, right. So that's why US Airways Group Inc. and United Airlines Inc. are bulking up flights a startling 53% at Washington's Dulles International Airport in the first half of this year. And that explains why U.S. carriers plan to beef up transatlantic capacity more than 10% in 1999, far outstripping the level of demand indicated by anticipated economic growth. All told, the industry expects to expand capacity by 5.6% this year, faster than the previous six years, says analyst Samuel C. Buttrick of PaineWebber Inc. Growth in 2000 should be close to 5% again. That's not massive compared with the 10% peak annual capacity growth in the '80s, but it's far faster than last year's 1.5% increase and 1997's 3.1%.

The inevitable result, predict a growing number of skeptics, will be too many seats chasing too few passengers—even taking into account rising estimates of U.S. growth, to around 3%, this year. Planes were more than 70% full on average in 1998. But analysts are bracing for more empty seats and a return to fare wars this year. Susan M. Donofrio of BT Alex. Brown Inc. figures net earnings for the 10 major carriers will fall 17% in 1999, to \$4.4 billion, on 4% revenue growth. And that's assuming airlines can push through another fare increase, like the 2% to 4% hike adopted in late January, the first since September, 1997. "There is simply more capacity than is good for the long-term economics of the industry," says American Airlines CEO Donald J. Carty.

Airline analysts could se

the buildup coming two years ago. But they didn't foresee the economic turmoil that would hurt demand in Asia and Latin America. Even at home, in the face of stronger-than-expected fourth-quarter economic growth and low fuel prices, the airlines posted flat revenue and falling profits. One reason: Corporations have been curbing travel budgets and balking at sky-high business fares. And the carriers also face growing wage pressures. American pilots, for instance, staged a sickout in early February over wages and other contract issues, forcing the carrier to cancel more than 2,400 flights.

Predictably, each carrier with big ex-

pansion plans argues that its outsize growth makes strategic sense. Continental Airlines Inc., for one, says attempting a 8.6% increase in capacity this year, after last year's 10.6%, is justified because it was underinvested in Newark, Cleveland, and Houston hubs during two bankruptcies. US Airways is expanding its MetroJet operation as a defense against Southwest Airlines Co. on the East Coast.

But, warns Carty, "if you have that mentality at four or five carriers, then it gets away from you." American has trimmed its growth plans from 6% to 4% for '99. And despite its buildup at Dulles, United's overall growth this year is expected to be a modest 2.9%, trimmed from 3.6%. "We are all concerned about industry capacity," says Rono Dutta, senior vice-president of planning at UAL Corp., United's parent. **FIRST TO BLINK.** Competition on transatlantic routes may prove particularly tense. U.S. carriers have plans to boost capacity by 15% to 17% this summer. Some are rerouting planes from Asia, where demand remains slack. European

carriers are expanding, too, which is likely to lead to deep discounts to fill empty seats at the peak travel season.

There is still time—too much—for airlines to scale back. Carriers start to promote summer flights to Europe in February and March. "If we don't see any [cutbacks] by mid-second quarter, we're stuck for the year," says Donofrio. And unless demand weakens considerably, some analysts believe airlines won't feel the need to change course. After all, even the projected drop in earnings for 1999 makes this a good year by historical standards. But Carty argues that any missteps will badly wound the airline's credibility on Wall Street.

Continental won't risk such a credibility gap, says President Gregory D. Brenneman. "If we see softness, we will stop the growth or even shrink the airline," he vows. "There's nothing sacred to us about the growth if we can't do it profitably." But for now, it looks as if Continental and others are waiting for someone else to blink first. The longer they wait, the better it looks for airline passengers—and the worse for airline profits.

By Wendy Zellner
Dallas, with bureau report

OVERBUILDING?

Carriers are Aiming for More Expansion

	FORECASTS OF 1999 CAPACITY INCREASES		
	SYSTEMWIDE	DOMESTIC	INT'L
AMERICAN	4.0%	2.5%	7.4%
CONTINENTAL	8.6	4.0	17.5
DELTA	3.5	3.1	5.0
NORTHWEST	9.2	10.0	7.9
SOUTHWEST	11.4	11.4	—
UNITED	2.9	4.6	0.0
USAIRWAYS	7.8	7.3	12.2

DATA: PAINEWEBBER INC.





Connect with Asia

NTT — The ideal choice for *flexible* communications.

Arcstar Advanced global communications from NTT.

Arcstar offers you a uniquely *flexible* global connection. In fact, no one offers a stronger connection with Asia and the Pacific. In Singapore, for example, NTT's Customer Support Center provides comprehensive network-integration services and maintenance to flexibly satisfy your every need. As one of the world's leading telecom providers, NTT can provide you and your global offices with an unsurpassed level of service. From round-the-clock multi-language assistance and business support to emergency backup. Now, connecting with Asia is a simple matter of connecting with the right partner.



Builders of the infocommunications age

For more information on how NTT can connect you, call 1-800-4-NTT-USA.

<http://info.ntt.co.jp/global>

MEDIA

THE EDGAR AND BARRY SHOW

Bronfman is happy to watch Diller build the empire—for now

Does money grow on Barry Diller? Usually, when a company announces an acquisition, its stock drops and that of the target company rises. But when Diller announced on Feb. 9 that he plans to merge the Internet assets of his USA Networks Inc. with portal company Lycos Inc., shares of USA rose 10%, adding \$1.2 billion in value. The stock of Lycos dropped 26%. "We gave him a couple of million, and he turned it into billions," says Robert R. "Dob" Bennett, president of Liberty Media Co., a partner that owns a 21% stake in USA Networks.

No one should be celebrating more than Diller's most important partner, Edgar Bronfman Jr. The Seagram Co. president has gotten far more from partnership with the 57-year-old Diller than money. Bronfman has had a shaky launch as an entertainment mogul since taking over Universal Studios Inc. in 1995. Universal's theme parks and music are doing well, but its core movie studio has brought to the screen a string of so-so films and money-losers such as *Babe: A Pig in the City*.

But Seagram's interest in USA Networks has given Bronfman solid success on the small screen. And, in the year since Bronfman traded the original USA Network, Sci-Fi Channel, and Universal's TV production unit for 45% of Diller's outfit, the value of his stake has gone from \$2.75 billion to some \$5.75 billion. Almost as important, the company that Diller is creating could provide a powerful outlet for Bronfman to sell music, videos, and other merchandise from Universal and his Polygram units.

Even before announcing the Lycos deal, USA Networks was on its way to becoming the prototype of the



A YEAR OF DILLER DEALS

FEB. 12, 1998 Diller's HSN buys USA Network, Sci-Fi Channel, and a TV studio from Seagram for \$4.1 billion in cash and stock

JUNE 24, 1998 Diller merges with Ticketmaster Group for \$467.7 million in stock

SEPT. 28, 1998 Diller purchases 51% of CitySearch for \$120.9 million in stock

FEB. 9, 1999 Diller announces merger with Lycos

21st-century media company. With TV audiences fragmenting, Diller is fashioning an outfit that will rely nearly as much on direct sales as on advertising. Last year, it sold more than \$1 billion in merchandise over its Home Shopping Network. On the TV network Diller is building with his USA cable network and 16 local TV stations, he doesn't just depend on the traditional revenues from cable operator fees and advertising. "They are doing what all cable companies are trying to do," says Merrill

For the Seagram chairman, with CDs and tickets to sell, Lycos was a no-brainer

BRONFMAN CAN VETO DILLER MOVES

Lynch analyst Jessica Reif Cohen. "the retail revenue stream that goes advertising and cable fees to help for higher costs of programming."

Lycos, the third-largest Internet portal, would give Diller's retail business, which includes the powerful Home Shopping Network, a wider outlet on the Net. This year alone, figures from Banc Montgomery Securities

analyst John Tinker, USA Network will sell \$60 million through its online First Auction service, 10 times its 1997 sales. And it will generate another \$30 million through ticket sales on Ticketmaster.

DILLER: Building a media powerhouse which launched last year.

Lycos, which will be merged with USA's Internet

assets, will give the company access to 30 million people online through its four national and 19 regional Web sites. "As a media company that doesn't have a large footprint in the world of electronic commerce on a worldwide basis is going to be in trouble," Diller says.

To sign the deal, Diller needs approval from Bronfman, who has effective veto power over major business moves in a complicated formula tied to his 49% stake. Despite Diller's role, Seagram doesn't always go along. Bronfman blocked Diller from striking a deal to buy a stake in NBC from General Electric last year, for example.

Bronfman, for now, is busy fixing his movie business and slashing costs at Polygram, the music giant he paid \$1 billion to acquire. He can let Diller build up the TV and online business. And Seagram has options to lift its stake in USA to 50.1% by 2002. That would give Bronfman a shot at running USA, but only if Diller volunteers to leave.

Can the two moguls coexist in the meantime? Sources at Seagram and USA say the two confer often, and that 43-year-old Bronfman shares Diller's vision for a larger company. Essentially, he's in the position of waiting for Barry to move one way or the other," says a Bronfman associate. Until then, Bronfman can sit back and count the money Diller is investing for him.

By Ronald Grover in Los Angeles, with Richard M. in New York



ONLY THE BLUEST OF BLUE CHIPS.



BLUE CHIP FUND A company's admission into the AIM Blue Chip Fund does not come easy. Only those ranked at the top of their industries are welcome. And being an industry leader is no guarantee that a company is "blue-chip" enough.

AIM Blue Chip Fund

1 Year	5 Year	10 Year
10.42%	24.08%	18.36%
13.24%	*22.69%	*17.69%

Maximum 5.50% sales charge. Average Annual Total Return as of 12/31/98.

Market volatility can significantly impact short-term performance. Results of an investment made today may differ substantially from the historical performance shown.

Our disciplined strategy searches out only the best growth and value stocks. Which means we accept only those companies that have growing earnings or are undervalued among blue-chip companies.

It is a strategy that seeks performance through discipline. A strategy designed to create a fund full of the kind of companies that will make you feel more confident in your investments. This is as blue as it gets.

Invest with **DISCIPLINE**®

www.aimfunds.com



MUTUAL FUNDS

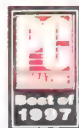
Performance cannot guarantee comparable future results.

YOUR FINANCIAL CONSULTANT for more complete information about the Fund, including charges and expenses, a Fund prospectus and Investors Performance figures are historical and reflect reinvested distributions and changes in net-asset value for Class A shares. Investment return and principal value will vary so you may have a gain or loss when you sell shares. Please read the prospectus carefully before you invest or send money. AIM and design is a registered trademark of AIM Investment Group Inc. AIM Distributors, Inc. 1999.

Intel Inside... ViewSonic on top!



(PC Sold Separately)



Turn traditional thinking on its ear

Today, regardless of the PC brand you choose, the most important component is not the computer. It's the monitor.

Yesterday the hot phrase was "Monitor Sold Separately." Today, it's "PC Sold Separately." Technology blurs the lines between one computer and another. They're all fast, all loaded, all pretty much the same.

What's different, what's exciting is happening in displays—multimedia monitors with built-in teleconferencing capabilities and flat panel displays you can mount on the wall.

The new ViewSonic VG180, 18.1" viewable LCD ViewPanel[®] is a case in point. It features a 160° viewing angle, a spectacular true resolution of 1,280 x 1,024, a rock solid image and amazing performance. By putting ViewSonic's VG180 ViewPanel[®] on top of your priority list, you'll ensure your Visual Computing[™] experience is excellent.

At ViewSonic we developed the VG180 with your vision in mind. TCO '95 certification. Warranty; 3 year parts and labor, one year back light. Express Exchange[®] Service option available.

**For more information call 800-888-8583
or visit our website at:
www.ViewSonic.com/busweek**

Intel and the Intel Inside logo are registered trademarks of Intel.



www.ViewSonic.com

EDITED BY KELLEY HOLLAND

CO'S NEW KICK: MOTOROLA

AR AGO, MOTOROLA WAS sagging. It was losing con- s in the digital cellular smission business, and ellular-phone business sagging. But in 1999, s are looking up. The -phone business is unding, and Motorola's -cutting plan is about million ahead of sched- On Feb. 8, CEO Christo- Galvin announced a deal Cisco Systems to build world's largest wireless rnet system. The two o invest more than \$1 n to create a system to mit voice, video, and o cell phones and lap- omputers. Wall Street is ed. Says Warburg Dil-

CLOSING BELL

TATTERED NET

most Internet stocks of , CNET tried—but ed—to defy gravity. The service's stock surged e than 112% from Jan. 25 eb. 3, partly on acquisition rs. But with no deals in t, CNET's stock has plum- ed. It plunged almost 21% eb. 9—even after ouncing a key deal to be computer-buying informa- source on America Online. T's Feb. 10 announcement stock split and its first itable year could not stem spiral, as the stock fell an tional 7.3%.



lon Read analyst Jeffrey Schlesinger: "It's the best card he could have played."

SBC MAKES A LONG-DISTANCE DEAL

SBC COMMUNICATIONS IS ON the prowl again. On Feb. 8, the San Antonio Baby Bell said it would buy up to 10% of Williams Companies' tele- com division for about \$500 million. Williams will carry SBC's long-distance traffic at favorable prices once SBC wins approval to enter the market—a decision expected by the end of 1999. Williams, about two-thirds of the way toward completing a nation- wide fiber-optic network, is assured of volume when it begins connecting the No. 2 local phone company's cus- tomers to its system.

SMITHKLINE PULLS WAY BACK

SOUND THE RETREAT. BRITISH drug giant SmithKline Beecham's five-year expan- sion stopped on Feb. 9 when CEO Jan Leschly said he would sell two key U. S. busi- nesses, cut 3,000 jobs, and close 67 factories by 2002. Clinical Laboratories, acquired for \$2.3 billion, will be sold to Quest Diagnostics for \$1.03 billion in cash and a 29.5% equity stake in the expanded group. Diversified Pharmaceuticals Services, bought for \$2.5 billion, will go to Express Scripts for \$700 million. Leschly, who led 1998's failed merger try with Glaxo Wellcome, denies rumors the revamp may reignite talks. But at this rate, going solo may not work.

THE GREAT PC GIVEAWAY

ON FEB. 8, A STARTUP CALLED FreePC.com said it would give away 10,000 low-end

HEADLINER: JOHN REED

HASTA LA VISA

In what may be a step toward severing relations between Citigroup and Visa, Citi co-CEO John Reed is quitting the U. S. and international boards of the credit-card association. Citi, the top card issuer, could wind up only putting out cards with the MasterCard logo.

The move is part of a long battle by Reed to es- tablish Citi as a brand name, an effort he feels has been frustrated by Visa's aggressive marketing. "It goes back quite a ways," says David Berry, research director at investment bank Keefe, Bruyette & Woods.



"John Reed has the view that Citi will be another great four-letter word like Nike or Coke." Citi ac- counts for nearly 17% of all Visa and MasterCard busi- ness, says the Nilson Re- port. Reed's goal: to put card associa- tions' names on the back of the plastic and keep Citi's on the front.

Reed's role in credit-card policy belies talk that he will play a smaller part at Citigroup, the behemoth created by the '98 Citicorp-Travelers merger. "John has been very involved," says Berry. "Any presumption to the contrary is silly."

By Gary Silverman

PCs to consumers willing to put up with ads 24 hours a day. The outfit would earn its money by selling onscreen ad space. FreePC.com may just be the start. Top PC makers including Hewlett-Packard and emachines say they're in talks with major Internet service providers to give away PCs when customers sign up for multiple years of service—the same way cell- phone companies provide "free" phones. Within 60 days, emachines, which sells \$400 PCs in stores, will supply PCs to BuildNET, a com- pany that offers a \$7,000-a- year online service to contractors, to be furnished free to its customers.

SEARS SETTLES UP WITH THE FEDS

SEARS ROEBUCK IS ENDING ITS two-year-long credit-collec- tion fiasco—at a price. The retailer will pay a \$60 million

fine after agreeing on Feb. 9 to plead guilty to one count of bankruptcy fraud arising from overzealous collection from debt-ridden customers. Among Sears' tactics: telling bankrupt customers they had to pay their debts to Sears. The company took a \$475 mil- lion charge to cover expenses related to the problem after the U. S. Attorney's office in Boston launched a probe in 1997. Sears has since tight- ened credit standards in its credit-card unit.

ET CETERA...

- Nike, cutting costs, will no longer sponsor the Italian soccer team.
- Northern Telecom cut 250 jobs at its Bay Net- works unit.
- Bristol-Myers Squibb won't develop startup Entre- Med's anticancer compound.
- Retailers will sell CD-ROMs for family photos using tech- nology from Kodak and Intel.

Zip! For a faster tax refund click send



IRS *e-file* is today's way to file your income tax—and get your refund back in half the usual time. Even faster with Direct Deposit!

If you prepare your tax return on your PC or Mac, take the next step and *file* it electronically too.

Click! IRS *e-file* is fast, simple, accurate and secure. And you can e-file 24 hours a day, 7 days a week.

Do you owe more tax? You can still e-file your return now, get fast proof of acceptance from the IRS, but then wait until April 15th to make the payment. One option allows you to authorize a withdrawal from your bank account on the date you choose, up to April 15th. Another option allows you to pay with your credit card.

Any questions? Check the IRS Web site at www.irs.ustreas.gov or your tax preparation software.

IRS *e-file*. It's the fastest way to get a tax refund.



CLICK. ZIP.
FAST ROUND TRIP.

The Internal Revenue Service



Working to put service first

BY PAULA DWYER

THE GOP RACE: SO MANY HOPEFULS HASING SO MUCH MONEY

Georgette Mosbacher, cosmetics entrepreneur and blue-chip Republican fund-raiser, is always in demand on the social circuit. But lately her phone has been ringing off the hook as Presidential wannabes in an increasingly crowded field are courting. Mosbacher says she'll pick a candidate soon to start dialing for dollars, but, she frets, "I know all these people. This is a very difficult call."

Mosbacher isn't the only top GOP giver trying to decide which candidate to support in 2000. Will it be front-runner George W. Bush? Although still weighing a bid, the Texas

governor is urging key fund-raisers to stay uncommitted just a bit longer. Or it could be former American Red Cross CEO Elizabeth Dole, who is testing the waters in New Hampshire? Also on Mosbacher's A-list: Arizona Senator John McCain, whose maverick campaign is attracting a surprising number of CEOs.

Although the Iowa caucuses are still a ways off, GOP hopefuls are already blitzing corporate America. Former Vice-President Al Gore and former Education Secretary Lamar Alexander may not win Mosbacher's heart, but they are luring other donors. With individual donations limited to \$1,000 per candidate, the game is to attract

high-profile names who use their connections to fill coffers. **THE FACTOR.** A front-loaded primary schedule intensifies the money rush. Many states have moved primaries and caucuses up to boost their voice in the selection process. Political pros predict that the nominee may emerge by the end of the primaries on Super Tuesday, Mar. 7, 2000. GOP lobbyist C. Korologos says party aspirants "realize that a year ago today they gotta have \$20 million in the bank."

Is that what? That may not be enough. The Capitalist Tool Belt, publishing magnate Steve Forbes, may forgo federal matching funds again to avoid spending limits. If Bush figures Forbes will inundate Iowa and nuke New Hampshire TV ads, George W. may also pass on matching funds. Ac-

cording to one fund-raiser close to Bush, that could mean he would have to raise a record \$40 million—\$100,000 a day.

So where's the early cash coming from? Bush is lining up support through Texas oilman Donald L. Evans, who can help tap the home-state money gusher. And Bush has other advantages: his Dad's Establishment ties and brother Jeb, the newly elected governor of Florida, who has pipelines to wealthy retirees and developers.

Investment banker Henry R. Kravis, New York fund manager Lewis M. Eisenberg, and oil exec John A. Moran are trekking to Austin on Feb. 24 to size up Bush. An endorsement may follow. "Everybody perceives that George is the winner, and they're lining up," says GOP graybeard Frederic V. Malek. "McCain, Dole, Quayle, and others have to do some heavy trolling for support."

And they know it. McCain starts with \$2 million left over from his '98 Senate race. Goldman, Sachs & Co. Chairman Henry M. Paulson Jr. and co-CEO John A. Thain will build on that at a Mar. 25 dinner in Manhattan. A week later, McCain will speak at a Chicago event hosted by Ameritech CEO Richard C. Notebaert, Hyatt Hotels & Resorts Chairman Thomas J. Pritzker, and AIG Chairman Maurice R. Greenberg.

Quayle, who is expected to have money woes despite his Veeep credentials, also has his business pals. On Feb. 25, USFilter CEO Richard J. Heckmann hopes to collect \$200,000 at an event at his Rancho Mirage (Calif.) home. Quayle sits on the boards of USFilter and American Standard Cos., whose CEO, Emmanuel A. Kampouris, also is a booster.

With so many Republicans lining up for the race—House Budget Committee Chairman John R. Kasich (R-Ohio) may announce soon, and New York Governor George Pataki still shows signs of interest—Big Business execs are going to feel the pinch earlier and harder than ever.

By Lorraine Woellert



OUT FRONT: Bush at the White House

CAPITAL WRAPUP

AND AS FOR BAUER

Religious Right crusader Gary L. Bauer will probably need to do the deepest digging to finance his fledgling Presidential bid. Amway President Dick DeVos says he will continue to support Bauer's lobbying group, Family Research Council, but not campaign. DeVos says he may back either Forbes, Dole, or Bush because they have the best chance of winning the party.

CAN THE CONCORDE?

► To Representative James L. Oberstar (D-Minn.), it's tit for tat. The top House Transportation Committee Democrat wants to ban the supersonic Concorde from the U. S. in retaliation for a European Union ban on jets fitted with high-tech mufflers called hushkits. The EU claims hushkitted planes are too dirty and noisy for its airports. Blocking the Concorde's three daily flights to the U. S. won't

come close to offsetting the EU ban's \$1 billion-a-year cost, but it's the principle of the thing, Oberstar says.

FAST-TRACK BREAKTHROUGH?

► The Business Roundtable is joining the National Association of Manufacturers in seeking compromise fast-track trade legislation that lets negotiators consider workers' rights and environmental protections. For two years, GOP bills that excluded such considerations have failed to pass.

Plans for reform are screeching to a halt as it enters a year of economic peril

We will prevail. That was the message Chinese Premier Zhu Rongji sent to the world a year ago, when the National People's Congress unveiled a \$1.2 trillion, three-year plan to keep the Asian crisis at bay. The public-works spending would keep China's millions employed and the economy expanding by 8% annually. Meanwhile, Zhu would tackle the thorny tasks of shutting down profitless state factories, curbing corruption, streamlining a bloated bureaucracy, cleaning up the banking system, and privatizing housing. With China still growing, Zhu thought the country could absorb the shock of reform.

He was wrong. Instead of embarking on a year of triumph, China is entering a year of peril—its worst in a decade. When Zhu set his plan in motion, he underestimated how out of control the economy already was; he miscalculated its frailty and the impact of the crisis. Now, millions of unemployed are clogging the cities. Protests occur almost daily. Consumers have stopped consuming. Housing privatization has stalled. State factories still churn out billions of dollars in unwanted goods.

INVESTOR FATIGUE. Meanwhile, many foreign investors, burned by Beijing's policies, are rethinking their commitment to China. "We are wondering if this is a government we can trust," says a Western banker in the southern city of Guangzhou. China has always been a tough place to do business. The threat this time is that investors will shift to more lucrative, more easily managed markets just when China needs outside capital most. As investor fatigue deepens, foreign investment could drop from \$45 billion in 1998 to \$30 billion this year, according to some government estimates. China cannot afford to lose investors' favor.

Beijing policymakers are deeply worried. China could fall into the same



trap that snared Japan: The government tries to reignite spending, but the banks, riddled with bad loans, stop lending. Deflation becomes unstoppable, and the consumer economy grinds to a halt. To get at least some growth, authorities are forced to devalue the yuan. Meanwhile, social unrest could pose a serious threat. This year marks the 10th anniversary of the bloody night at Tiananmen Square, as well as the 50th anniversary of the founding of the People's

Republic. Celebrants can easily turn into demonstrators if they are angry enough and poor enough.

With these threats looming, Zhu has quietly set aside much of his political destabilizing reform plan. He is also engineering a crackdown on the province investment trusts, and sealing the exit for any Chinese company that wants to ship money out of the country. The same merit to the crackdown: Ch

CHINA'S SLIDE INTO CRISIS

MARCH 1998 Premier Zhu Rongji vows to slash bureaucracy, spend \$1.2 trillion, end subsidized housing, and reform state enterprises.

JUNE Exports grow at a mediocre 7.6%, a third of 1997's levels.

SEPTEMBER Officials crack down on unauthorized foreign exchange dealings to stem billions in capital flight and set

minimum prices for 210 tries. Housing reform slows dramatically. Consumer confidence wanes. Zhu backs from aggressive reform companies.

OCTOBER Zhu intensifies

CHINA

WHAT'S GOING WRONG



a better regulated and less corrupt economy. But the moves show Zhu much a party cadre intent on consolidation as he is a reformer. And while Zhu's past used the levers of state power to curb inflation and promote growth, this time his policies seem likely to lead to more stagnation.

Zhu and his advisers were supposed to avoid this mess. They knew the economy was starting to slow a year ago, so they figured Keynesian stimulus

was a tried-and-true formula for growth. The spending did boost growth for much of 1998, but then the economy started to cool in the fall. Too much of the money was siphoned off by corrupt officials, and too many of the projects were unable to trigger new economic activity. Workers got spooked as state enterprises continued to shut down, and consumer spending evaporated. The central government, suddenly frightened, pulled back from closing state factories.

campaign to
O billion in lost
venues. The cen-
suddenly closes
g International
vestment Corp.
accelerates.

DECEMBER People's Bank of China cuts interest rates for the third time in a year. Authorities crack down on political dissidents, sentencing four activists to long prison terms.

Other reforms ground to a halt, especially housing reform. The plan was that the middle class would buy the homes they rented from the government and so create a spending boom, with banks issuing mortgages and new

homeowners refurbishing their flats. But the middle class hesitated to spend their savings on apartments they had been renting cheap, and the banks shied at the risk of lending to buyers. The expected housing market never materialized.

Chinese authorities hoped that cheap, skilled labor could keep exports humming. Instead, the coastal export zones began faltering in the second half of 1998, after the Asian crisis wiped out China's markets in neighboring countries. Suddenly, instead of buying Chinese goods, South Koreans were undercutting Chinese steel and petrochemical prices on Chinese soil.

WASTED CASH. Then, late last year, authorities discovered companies and government agencies on the coast were anticipating even tougher economic times ahead—and trying to smuggle money out of the country as a result. More than \$45 billion is believed to have gone missing. As officials tried to stem the outflow, they started examining the books. To their horror, they discovered that many companies had taken on far more hard currency debt than regulators realized. Many international trust and investment corporations (ITICS)—set up initially to trade with the West and raise foreign capital—were awash in debt. Much of the cash was wasted. According to a local

UNREAL ESTATE

Shells of unfinished buildings, such as Hyundai's, haunt Dalian streets

official, the Guangzhou city ITIC sunk most of a \$10 million Japanese loan into lavishly redecorating one of its buildings.

So in September, Zhu imposed draconian controls on foreign exchange dealings. At the same time, he started putting the squeeze on one investment trust after another. But the unintended damage has been huge. Legitimate businesses find themselves encumbered by the heavy documentation needed to obtain hard currency. In Shanghai, an American maker of steel beams is so frustrated with forex controls that he wants out of his joint venture. And Procter & Gamble Co. is considering delaying new investments in southern China because of them, according to a Guangzhou city official. P&G denies this but says regulations are slowing payments to suppliers.

The consequences of Beijing's actions keep multiplying in coastal provinces. In Guangzhou, the crackdown on smuggling and corruption has struck fear into the hearts of entrepreneurs, scaring many of them from new investments. One city

official now predicts only 3% growth in exports and foreign investment in 1999, half the levels of last year. "We have suffered a serious negative impact," says city official Weng Wenxiang. Guangzhou city's ITIC may also be shut down, if an ongoing investigation finds serious financial mischief. That could spell trouble for the city government, which parked pension funds for the police force in the trust, according to a well-connected Chinese lawyer.

PRICE PINCH. It's not just the high-flying South feeling the pain. In the northeastern port of Dalian, once a hot growth area, Korean and Japanese companies are freezing new investments worth \$2 billion per year. The city is now littered with half-constructed buildings started by companies such as Hyundai Group. The local government has ordered that all building exteriors be finished to mask the extent of the real estate bust.

While the economy slows, Zhu is resorting to other expedients. Deflation is ravaging Chinese enterprises. These companies, most of them state-owned, have accumulated hundreds of billions of dollars in unused inventories. The solution: price minimums in 21 industries, including steel, glass, autos, and electronics. Tottering state factories may get a reprieve, but price floors create weird distortions. The manager of a Western chemical factory near Shanghai complains that local suppliers of polyester chips, a

CRACKDOWN

A corruption probe could shut Guangzhou's investment trust

key component for his products, have hiked prices to nearly 75% above world market rates, even though they all faced a glut. "It's

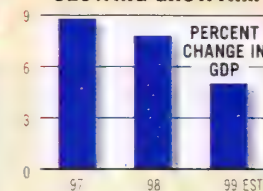
definitely a cartel," he says. "No matter what the order is, the price is always the same." Not surprisingly, his plans for a second production line are on hold.

Even more egregious are new protectionist moves. Late last year, Beijing announced it would curb operations of foreign telecom companies such as Sprint Corp. and Siemens, allowing China's main provider, China Telecom, and small rival Unicom more time to reap profits and cement control over the telecom sector. And Beijing has pushed a "buy local" policy requiring provincial authorities to steer clear of foreign telecom and power equipment.

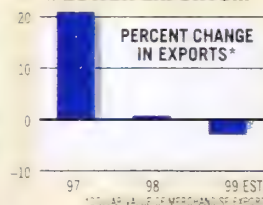
In Dalian, drugmaker Pfizer Inc. is posting only 5% revenue growth rather than the expected 27% because Beijing is limiting hospitals' purchases of drugs made by joint-ventures, which benefits Chinese producers. "Of course they're going protectionist," says the head of another Western company. "Beijing knows 1999 is not going to be an easy year."

To his credit, Zhu has backed a new securities law to improve the quality of China's bourses. He has helped convert the central bank into a Federal Reserve-type system that reports to Beijing—not to reckless local officials. He is also supporting constitutional changes to give more recognition to private enterprise. And he is trying new taxes

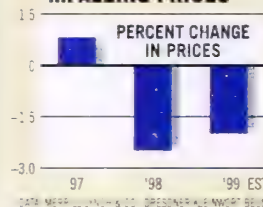
THE GRIM NUMBERS...



...LOWER EXPORTS...



...FALLING PRICES



DATA: MEPP/CLUNY/WHO; DRESSNER/ALAN WORT/BEISSON

and enforcement to increase the province's contributions to central coffers.

But anti-Beijing feeling on the coast is rising rapidly, and could make it tough to reign in growth. A source close to the Guangdong authorities insists the central authorities were gunning for the company when they shut it down, though he admits weak management. According to this insider, the ITIC had sufficient money to cover its debt, but Beijing authorities prevented the company from converting this foreign exchange. "Beijing wants to pull in

reins and show who's in charge," says Laurence Lipsher of the American Chamber of Commerce in Guangdong.

China's lost momentum for reform creates a twofold risk. The first is that China drifts along. While it relies on ad hoc measures and the old tools of central planning to stave off unrest, it loses time transforming itself into a market economy. The second is that multinationals' enthusiasm for China seriously weakens, leaving China with new technology and management ultimately further behind the West.

Chinese authorities know foreign investors are hurting. They are doing little about it, hoping a recovery in 2000 will compensate. But it's a gamble. The U.S. China Business Council recently found that 80% of its members are affected by the new forex regulations. More than 50% of them are delaying new investments in China in response. "The side effects of these immense assaults by the regime on business as usual are proving very painful," says Robert A. Kohn, president of the Council. "At the end of the day, American companies have business decisions to take. Some will say 'Let's go home or cut back.'"

It would be tragic if China put reform on hold for too long. The country has traveled a long and hard road to its present level of prosperity. A stagnating China would pose a serious threat to Asia's recovery as well as the global economy. Zhu's biggest challenge is just beginning.

By Dexter Roberts in Guangzhou with Joyce Barnathan in Hong Kong, Jonathan Moore in Shanghai, and Steve Prasso in New York



Live the experience!

the Live! experience.



awesome
AUDIO



explosive
GRAPHICS



thrilling
PC-DVD



sensational
SPEAKERS



It's a totally different way to stimulate your senses.

The Live! experience is a totally different way to interact with your PC. Our multimedia upgrades take you to places you've never been. It's seeing and hearing for the first time. It's being there without ever leaving your seat. It's the adventure of a lifetime. Turn your PC into an extraordinary entertainment center — at an incredibly affordable price.

CREATIVE

www.soundblaster.com/golive/

SWEDEN

BUSTING UP SWEDEN INC.

Volvo's sale signals sweeping shifts in this clubby business culture

One recent Tuesday, Scandinavian Airlines System's early evening flight from London to Stockholm was crammed with Swedish stock analysts heading home. They had traveled to Britain to hear Sven-Christer Nilsson, chief executive of telecom giant Ericsson,

discuss the group's 1998 results—and launch a new mobile phone. "Last year, they held this meeting in Stockholm, but now we must go to London," grumbled Jan Ihrfelt, an analyst who follows Ericsson for Stockholm's Swedbank. Ericsson recently moved its European headquarters to

London to escape Sweden's high personal-income taxes, and to be closer to investors and customers.

Ericsson's controversial shift is only a small tremor in the series of earthquakes shaking Sweden. The pillars of the country's economy—its system of interlocking, closely held companies and its generous welfare state—are being rocked by the forces of global competition and rising investor demands for better returns. Companies that have dominated for decades are merging, selling off key assets, and moving operations out of their homeland.

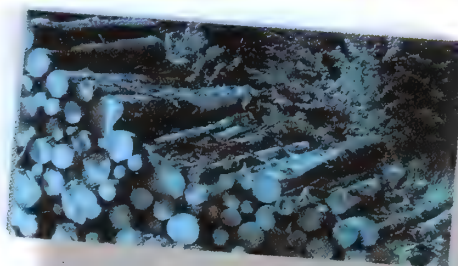
BRAIN DRAIN. Mergers worth more than \$52 billion swept Sweden last year, according to J.P. Morgan & Co.—\$6 billion more than in Germany, where the economy is 10 times as large. The country's leading industrial family, the Wallenbergs, led the wave by merging

key assets in their empire—the Stora forest-products company and Astra, Sweden's largest pharmaceutical company—with Finnish and British competitors (table). The most surprising recent deal came in late January, when Volvo announced it would sell its car business to Ford Motor Co. for \$6.5 billion. Only six years ago, popular resistance scotched a proposed Volvo merger with Renault.

Sweden's shakeup may well accelerate after a new CEO—42-year-old Marianne Wallenberg—is, as expected, appointed to head Investor, the Wallenberg holding company, on Feb. 11. Investor is under pressure, and many observers see its influence declining. Some believe the Wallenbergs may eventually dissolve Investor by distributing stakes in companies from Ericsson to Electrolux to shareholders. Although Investor denies having any such plans, a breakup could unleash a wave of deals.

All this could bring a traumatic change for Sweden, once one of Europe's most prosperous countries. And it puts a burden on Social Democratic Prime Minister Goran Persson to launch tax and welfare reforms. Until recently, the left-leaning government kept business happy by buying their products and maintaining low corporate-tax rates of 28%.

But now, with global competition for investors and management talent soaring, Sweden has become a less attractive place to live and work. Personal tax rates of close to 60% make it nearly impossible for Swedish companies to recruit managers from overseas, executives say. And talent is leaving.



WINDS OF CHANGE

ASTRA

To be merged with Britain's Zeneca in a \$31.8 billion deal, with headquarters in London.

ERICSSON

Moving its European headquarters and corporate-finance unit to London.

SAAB AIRCRAFT

A 35% stake was sold to British Aerospace for \$454 million in 1998. The civilian aircraft unit is being shut down.

SAAB CARS

Now a 50-50 joint venture between the Wallenbergs' holding company, Investor, and General Motors.

STORA

The Wallenberg forest-products company is joining with Finland's Enso Oy in a \$6.9 billion deal.

VOLVO

The car division is to be sold for \$6.5 billion to Ford Motor. Now pursuing a merger with truckmaker Scania.



"WHEN OUR CUSTOMERS WANTED
VOICE MAIL, WE COULDN'T AFFORD TO
WASTE TIME SPINNING OUR WHEELS."



Recently, customers of a CLEC in one of our local markets were clamoring for voice mail service. However, the CLEC didn't have the capability. They needed a voice mail network, and they needed it now. That's when they called in GTE WHOLESALE MARKETS. Experience told us it would take eighteen months to construct an entirely new voice mail network. Not good enough. So we devised a plan that would use existing GTE infrastructure and bring the same service online in just one month. Without tying up huge amounts of capital in the process. Is a communications problem throwing you a curve? GTE can deliver innovative solutions that provide more capacity, more technology, more of what you need to be successful. And we can do it in a hurry. Call GTE Wholesale Markets at 1-888-483-9594, or visit us on the Internet at www.gte.com/Wmkt. We're quick. We're cost competitive. And, best of all, we'll steer you in the right direction and help you accelerate toward your goals.



PEOPLE
MOVING
IDEAS™

NETWORK
SERVICES

If the Wallenbergs distribute shares of Ericsson and Electrolux, it could unleash a new wave of deals

Federation of Swedish Industries says 800 engineers emigrated in 1997.

Swedes are debating the surprising new developments. If the exodus continues, many worry, Sweden could become an economic backwater. Foreign ownership of local operations could lead to layoffs, boosting unemployment well above its current 10%. Financiers fear that Stockholm's thriving stock exchange may lose its most heavily traded listings, and become irrelevant. Businesspeople are also concerned that Sweden's delay in joining the European Monetary Union—not expected for three more years—isolates the country.

Not everyone is pessimistic, of course. Some argue that restructuring will make industry more competitive. The shakeup in Sweden Inc. could also clear the way for smaller companies. Despite taxes and red tape, new venture-capital funds are springing up, and Scandinavia's love of the Net and mobile phones has sparked the creation of high-tech startups.

But it may take years for those outfits to take off, and they will face an uphill battle if technology-driven companies like Ericsson move operations out of the country. Meanwhile, few analysts expect the Persson government to do more than tinker with the tax system. So Sweden is likely to see a bigger industrial overhaul over the next few years.

HEAVYWEIGHTS. Nowhere is this truer than at Investor. The Wallenberg empire is still the heart of corporate Sweden, controlling or holding stakes in ABB, Asea Brown Boveri, Ericsson, Electrolux and other heavyweights that total 40% of the Stockholm Stock Exchange's \$265 billion market cap. But the family's power has waned since the days when patriarch Peter Wallenberg, now 72, was Sweden Inc.'s undisputed chief.

Now, the Wallenbergs are straining to remain relevant in a fast-changing world. The decision to make young Mar-

cus Wallenberg—Peter's nephew—Investor CEO is a move aimed at doing just that. Marcus will replace longtime Investor CEO Claes Dahlback, returning a family member to one of the two top positions at the company for the first time since April, 1997. That's when Peter retired as Investor chairman, and Percy Barnevik, known for shaking up companies such as ABB, replaced him.

Most Wallenberg watchers believe the new CEO will have to accelerate the remake of Investor and its holdings. If Investor does not perform, its increasingly independent-minded shareholders will question the Wallenbergs' control. Investor's negative total return last year—it lost 1.1%, while the Swedish market index gained 13%—has hurt its image. The Wallenbergs' "grip is



SEEKING REMEDIES

The choice of Marcus Wallenberg (above) as Investor CEO may lead the company into fresh enterprises. Many Swedes look to Prime Minister Persson (right) for tax and welfare reform



loosening quickly," remarks one Stockholm fund manager. "If they lose respect, it will be impossible to keep [Investor] together."

Some shareholders favor a decision to dissolve Investor, bankers say. The reason: Investor shares routinely trade at a 20% to 30% discount to the value of Investor's assets. That means shareholders would reap a profit from a decision to distribute Investor's assets proportionately to its shareholders.

For now most analysts expect Marcus and his cousin Jacob Wallenberg, chairman of SEB bank, to resist such a breakup. Hostile raids on Wallenberg companies, however, could be in the cards. Volvo CEO Leif Johansson launched a surprise attack on Wallen-

berg-controlled truckmaker Scania January—days before his sale of the Volvo car unit. Johansson rounded up 13% of the outstanding stock from firm managers, who were disgruntled with the lackluster performance of Scania stock. While Johansson may not leave Scania, the company is in play.

CATCHING FLAK. The Scania-Volvo dupe has stirred criticism of Investor Chairman Percy Barnevik, long a darling of the Swedish press. Barnevik being chided for failing to achieve a high enough premium in Astra's proposed merger with British drugmaker Zeneca Group PLC. The Swedish Shareholders' Assn., which represents small stock owners and led the fight to block Volvo's merger with Renault, is calling on its members to vote against the Astra-Zeneca deal.

As he takes over Investor, Marcus Wallenberg is expected to increase company's support of midsize and entrepreneurial businesses. Investor is strengthening its New York office, which is looking for investments in information and medical technology. But these new businesses aren't big enough to help Investor's bottom line. And Wallenberg faces critical decisions about Scania and other holdings, including profitable roller-bearings giant SKF.

He may look for Swedish solutions for these problems. But, as Volvo's case shows, takeovers by stronger foreign players are probably the way ahead for most Swedish industrial companies. If that happens, the question will be whether small and midsize companies can make up for lost jobs and wealth.

In some senses, the ball is in Prime Minister Persson's court. To encourage business, he is contemplating repealing the 5% surcharge on high-income earners and the 1.5% wealth tax. He has also signaled that he may take Sweden into the EMU around 2002. But he will have to take more radical steps to prove the business climate dramatically.

It also may be true that market forces are moving too fast for Persson's government to influence the shakeup in Swedish industry. For better or worse, Swedes will probably see many more companies follow the examples of Volvo, Astra, and Ericsson—and shift wear jobs, and ideas outside their country.

By Stanley Reed, with Ariane Sahlström in Stockholm

FOR US



IS INDEED AN INTELLIGENT CHOICE

ROBERT PERLMAN
EXECUTIVE VICE PRESIDENT
INTEL INTERNATIONAL



PABLO RODRIGUEZ
PRESIDENT
INTEL, PUERTO RICO

Intel Puerto Rico is an enterprise dedicated to assembling electronic boards used in personal computers, servers and communications products.

For the last three years, our plant in Puerto Rico has twice received the Intel Quality Award, in 1994 and 1997, an achievement that fills us with pride and reaffirms that yes, Puerto Rico was indeed an intelligent choice.

With our open door, pro business government and our comprehensive tax exemptions, Puerto Rico, USA is the perfect site for your business.

- ▶ A new tax incentive law with an effective tax rate as low as 2% and a maximum of 7%. For manufacturing and export oriented services.
- ▶ 200% deduction of R&D costs.
- ▶ 200% deduction of training costs.
- ▶ Full expensing of investment in plants, parts & equipment.
- ▶ Ample supply of skilled production workers.
- ▶ Highly educated, bilingual managers and executives.
- ▶ The most advanced infrastructure in the region.

All of this, while being able to place the "Made in USA" label on your products. And of course, in Puerto Rico, USA, you will find a beautiful climate all year round and an enviable quality of life. No wonder half of all Fortune 100 companies are established here!

Want to know more? Just call for additional information or contact us and let us prove to you that Puerto Rico means business!

www.pridco.com

1-888-5-PRIDCO

PUERTO RICO USA
THE PERFECT BUSINESS CLIMATE



GERMANY

'THEY'VE DECIDED IT'S BETTER TO TELL THE WHOLE TRUTH NOW'

German CEOs are unlocking their vaults to purge war guilt

Rolf Ernst Breuer, head of Frankfurt-based Deutsche Bank, had an ugly day on Feb. 1. Bank historian Manfred Pohl paid the chief executive an urgent visit to tell him that researchers hired by the bank had uncovered proof that Deutsche helped finance construction of Auschwitz, the notorious death camp, during World War II. Breuer, Pohl recalls, was stunned. But when Pohl said he planned to publish the information as soon as possible, Breuer's response was unequivocal. "He said, 'Do it,'" Pohl recalls. "We want this out in the open."

Chances are, more German CEOs will soon be getting such visits. After years of dawdling, many of Germany's biggest financial institutions, including Dresdner Bank, Commerzbank, and insurance giant Allianz, are coming clean on their wartime doings. They are hiring prominent historians to dig into Nazi-era records and other historical data. "We

have complete freedom," says Gerald D. Feldman, a University of California at Berkeley professor who is leading the project at Allianz. "They've decided it's better to tell the whole truth now than to let it come out in dribbles."

MILES OF FILES. That's one reason the Germans are likely to cut a speedy reparations deal with the World Jewish Congress to aid Holocaust survivors. Four days after Pohl's Feb. 4 press conference in Frankfurt announcing his Auschwitz evidence, Breuer was off to Washington to parley with U.S. and Israeli officials, as well as the WJC. Partly, he wants to avoid a controversy that could delay his bank's \$10 billion takeover of New York-based Bankers Trust. But he and other bankers also worry that if they don't act fast, the information historians find back home will become fodder for U.S. lawsuits.

Breuer predicts that details of a reparations fund will be worked out by May.

Bonn has already agreed to set up an umbrella fund to cover liabilities related to forced labor, slave labor, and financial wrongdoing by German banks and companies. Talks on the fund's size are just beginning, but analysts figure Deutsche alone may have to contribute up to \$1 billion. The goal on all sides is to start paying claims by Sept. 1, the 60th anniversary of the start of World War II.

New York City Comptroller Arthur G. Hevesi, who has pressured European institutions to make restitution to Holocaust survivors and their heirs, commends the German government and Deutsche Bank for being "more than cooperative" in addressing restitution issues. But Hevesi still urges U.S. bank regulators not to sign off on the Bankers Trust merger until a plan is fleshed out. Breuer contends "the merger is moving ahead absolutely undisturbed."

AUSCHWITZ

Proof is surfacing Why are many German companies coming clean now? One big reason is that the generation of CEOs taking over at German companies wants

put war guilt behind them. At once-calcitrant Dresdner Bank, "there was a 180-degree turnaround" when new CEO Bernhard Walter took over in late 1990, says Klaus-Dietmar Henke, director of the Hannah Arendt Institute for research of Totalitarianism in Dresden, who is leading the probe of Dresdner's Nazi-era activities.

Nevertheless, Dresdner is probably the most vulnerable to embarrassing revelations. "Historians know Dresdner financed concentration camps and Aryanization of Jewish property," notes Christopher M. Kopper, a visiting history professor at the University of Minnesota whose father is chairman of Deutsche's supervisory board. "It's well known that the SS used Dresdner as a sort of house bank." After less than a year of research, Henke's team has already published a book on Dresdner's dealings in looted Nazi gold.

The main thing slowing the history down is the sheer volume of material to be perused. Deutsche has gathered nearly six miles of files from its branches. That's how receipts showing the bank's Auschwitz dealings were discovered at the Hanover branch. "It's late and the victims are old," says Henke. "But at least now something is being done."

By Thane Peterson in Frankfurt with Joan Warner in New York

you@clubhouse.com

you@golfcart.com

you@fairway.com

you@sandtrap.com

you@sandtrap.com

you@sandtrap.com

you@19thhole.com



With Pagenet® Two-Way, you can stay in touch with the office no matter where you are. Receive e-mails in the Pro Shop. Send an e-mail in the middle of the fairway. Get pages, news and market updates, or any piece of information that's critical to your business. For information, call 1-888-PAGENET.

PAGENET®

www.pagenet.com/2way

EDITED BY JOHN TEMPLEMAN

WILL INDIA'S NEW IRON LADY LEAD CONGRESS BACK TO POWER?

Sonia Gandhi no longer needs to introduce herself as "India's daughter-in-law." After a year in politics, she is becoming as recognizable and as tough-minded as her mother-in-law, formidable former Prime Minister Indira Gandhi. The once-reserved widow of Rajiv Gandhi, who, like Indira, was assassinated in office, is in firm control as leader of the Congress Party, India's oldest. And she looks set to push the rickety ruling coalition led by the Hindu nationalists of the Bharatiya Janata Party out of power soon.

In fluent Hindi, the Italian-born Gandhi hammers out a message that her voters and the global business community want to hear: She promises to revitalize India and put it back on the road to economic growth. Aides say a Congress government would target 7% annual growth so that it could engineer "economic reform with a human face." Party spokesman Ajit Jogi says Congress wants to "create an atmosphere where you attract foreign capital and generate employment."

Although the next national election need not take place for four years, Gandhi—clad in a traditional sari, her hair in a Western flip—has been in electioneering mode for a month. Since assuming the party leadership, Gandhi hasn't rushed to destabilize the BJP government. Her advisers, many of them close confidants of her late husband, pointed to the risks of inheriting a sliding economy with a budget deficit running at 6.5% of gross domestic product and a nation wracked with intercommunal discord and increasing lawlessness. But lately, Gandhi has been saying that Congress is "prepared to lead the nation again." And polls show that her party could win a majority of seats if an election were held today.

That alone is a tribute to her growing political savvy. Barely two years ago, the ramshackle and undisciplined Congress was ejected from power in the wake of a corruption

scandal. Since then, Gandhi has restored party discipline and established herself as undisputed leader in the mold of Indira or Rajiv's grandfather Jawaharlal Nehru, Prime Minister after independence. "The Gandhi dynasty is the party's cement," says Dhirubhai Sheth, a senior fellow at the Centre for the Study of Developing Societies in New Delhi.

BIG TEST. Sonia is molding that cement into election victories. In local contests in November, Congress won three of the four states it had earlier lost to the BJP, such as industrial Maharashtra

and the capital city of New Delhi. Starting in November, regional elections will give Gandhi a chance to put Congress back in power in India's southern states and in the populous "Cow Belt" states of Bihar and Uttar Pradesh. The latter are at the core of the Hindi heartland and the backbone of the BJP's support.

Many Congress foot soldiers are championing the bit. They want Gandhi to pick up the pace and push hard to bring down the government now. So far, however, Sonia's tactic of standing back while the ruling coalition collapses under its own weight from internal squabbling and mounting scandals seems to be paying off. "We do not want to hijack power," says party veteran Kamal Nath.

Legitimacy and survivability are increasingly important concerns. Gandhi doesn't want to face an election until she thinks she can win big. Meantime, she is trying to show that she can deliver. After Congress wins in Delhi, Gandhi is working to resuscitate the capital, for example, hiring consultants such as PricewaterhouseCoopers to help solve the city's chronic power shortages.

India has run through four governments in the past three years. Its new iron lady seems set to change all that as she wins over a nation weary of political uncertainty.

By Manjeet Kripalani in Bombay



DYNASTY: Sonia and daughter

GLOBAL WRAPUP

WILL BEIJING KEEP ITS WORD?

► China's promise to allow Hong Kong political freedoms under its "one country, two systems" doctrine faces a severe test. Beijing wants to overturn a Hong Kong Court of Final Appeal ruling that children born in China to parents who are now Hong Kong residents have a right to live there, too.

Challenged by judges who follow the rule of law, Beijing reacted strongly. Zhao Qizheng, head of the Information Office of China's State Council, or

Cabinet, said the decision was "a mistake" and "should be changed." Beijing is furious because the ruling counters current Hong Kong and Chinese policy. Worse yet for Hong Kong democrats, the Chinese seem unimpressed that the judges based their decision on Hong Kong's Basic Law, the ex-British colony's legal framework that was approved by China's lawmaking National People's Congress.

Hong Kong lawyers rallied around the court, with even moderates lining up with the human-rights campaigners. Opposition leader and prominent attorney

Martin Lee warned that Beijing risks provoking a constitutional crisis. Lee and others worry that if the rule of law is undermined in Hong Kong, the territory will lose its appeal to business.

Chief Executive Tung CheeHwa characteristically ran for cover, saying that he placed "much importance" on the views of Beijing's legal experts. But his government was clearly caught off-guard by the force of the Chinese attacks, relayed by the official Xinhua News Agency and state-owned TV.

By Mark Clifford in Hong Kong

Help them plan a trip to Arizona

*Call them when their air bags went off
(Their car sent a signal to OnStar®)*

*Make sure they were all right
(They slid into a nest of rattlesnakes.)*

Wherever Frank and Shirley went, OnStar was sure to _____.

Offer to send an ambulance

*Check their engine by remote.
(From 1,000 miles away.)*

Pinpoint their exact location.

Order a tow truck.

Get them a cab to the hotel.

*Notify their insurance carrier.
(At Shirley's request.)*

Suggest a great Mexican restaurant.

*Get them to I-40.
(After Frank got lost.)*

Get them tickets to a baseball game.

Find the nearest gas station

Warn them about road detours.

*Call when their car was stolen
(And help the police track it.)*

Contact them after the car was recovered

*Unlock their car doors by remote.
(Frank locked the keys in the car.)*

Tell them Tucson will be sunny and 86°

How will you use it?



Wherever you go, here we are.™

MICROSOFT

HOW VULNERABLE?

It's faltering in court. Its crucial Win2000 system is two years late. And its rivals are ready





four years under development, Win2000 is an embarrassing two years behind schedule.

By itself, Egghead's defection wouldn't raise an eyebrow. Its business is just a speck in Microsoft's \$14.5 billion in revenues. But a loyalist's about-face brings into sharp relief a recent series of setbacks that—don't gasp—could actually slow Microsoft's seemingly unstoppable momentum. Could it be?

Will rival software companies actually have, pardon the expression, a window of opportunity?

Special Report

SOFTWARE

Competitors say this is the moment they've been waiting for. For the first time since the Internet blossomed in 1994, serious threats are surfacing to Microsoft's hegemony. "It's Microsoft vs. mankind, and mankind is winning," quips Sun Chief Executive Scott G. McNealy.

COURT CRUNCH. It would be a moment for the history books. For more than a decade, the software giant has been racking up new customers like billiard balls. It virtually owns the PC software market and in recent years has made inroads pushing Windows past the desktop and into handheld gizmos as well as big corporate computers. Indeed, it has handily aced out rivals for medium-size computing jobs, nabbing 36% of the network operating system market—up from a piddling 6% in 1994.

But suddenly, Microsoft doesn't seem invincible. After looking as if it might ease through the Federal government's antitrust trial with minimal damage, the company is reeling from the latest turn of events. Its defense is off to a disastrous start. Microsoft's first three witnesses failed to explain away internal E-mails that suggest the company sought to

Back in its earthbound days, Egghead Software Inc. was a Microsoft Corp. disciple. Not only did it sell hundreds of thousands of copies a year of Microsoft's Windows, Word, and Excel programs in its 150 stores, but Egghead ran its business on the software, too. But last Nov. 21, Egghead left the completed its move to a cyberspace-only business, taking the name Egghead.com Inc. At 4:45 a.m., in the offices in Vancouver, Wash., a technician switched on a Web site—one powered not by Windows software but by Sun Microsystems Inc. computers and software. "We're out of our breath. Fifteen minutes later, we broke out the champagne," says Egghead Chief Technologist Tom Collins. "I can bet the executives at Microsoft were the ones left for air. Egghead had decided that Microsoft's Windows NT software was simply not up to the task of running its site. And it couldn't afford to wait around to see if the industrial-strength version, Windows 2000, would arrive on time. Microsoft has promised Win2000 will ship this year, but we are becoming downright skeptical. It is, after all, the most commercial software project ever undertaken, with millions of lines of code—and that figure is growing daily. Now

use its Windows dominance to harm Netscape Communications Corp., which makes a rival Web browser. And executives botched a technical demonstration and were forced to admit humiliating inaccuracies. If Microsoft loses the case, the remedies could hinder its efforts to make Windows the be-all software for everything from phones to TVs to towering server computers (page 76).

Win2000 has its own trials and tribulations. Chairman William H. Gates III calls it the most important product that Microsoft has ever developed. It not only gives the software maker a passport into the so-called glass houses of corporate computing, where mainframes hum away, but also is designed to be the technical foundation for all of Microsoft's future consumer and business software.

RUNNING ON UNIX. Yet, it is missing in action at just the wrong time. Today, corporations are rushing to rejigger their businesses to take full advantage of the Internet and are clamoring for ever more powerful servers. But Microsoft's current Windows NT just isn't up to the biggest jobs. Even Microsoft's own 30-million-member HotMail E-mail service still runs on a version of Unix more than a year after Microsoft bought the startup.

Meanwhile, information appliances that allow people to tap into the Web from a kitchen, an office, or even a mountaintop, are catching on fast. From giants Hewlett-Packard Co. and Intel to startups like Aplio, companies are spinning out gee-whiz products that do everything from home banking to heart monitoring. When the dust clears, computing will no longer be

COMPETITORS CASH IN WHERE

IBM Operating systems are slow-growth businesses for IBM. But its middleware software is taking off. These programs run on IBM's mainframes, AS400 midrange machines, and Unix servers. Last year, middleware sales increases ranged from 70% to 90%.



CHAIRMAN LOUIS V. GERSTNER

HEWLETT-PACKARD

After years of following Microsoft's siren song, HP is hearing a second tune. It has announced a server that just runs Oracle's database software—no Windows necessary—and will unveil at least three "server appliances" in coming months. These are low-cost machines devoted to a single task that oftentimes don't need Windows.



CHAIRMAN LEWIS E. PLATT

SUN is taking some wind out of Microsoft's sails with Java, its ware used to write applications that will run on any computer—not just Windows-based machines. And, thanks to the shift toward

Internet computing

Sun's powerful servers are in great demand for Web sites and E-commerce.



CEO SCOTT McNEALY

LINUX The freeware operating system seems to be on a roll—competing with Microsoft. International Data Corp. pegs Linux' ket share at 17.2% last year, about half that for Microsoft's rival Windows NT server. Although it's still no barnburner in corporations, it's starting to win a few converts.

Example: Southwestern Bell's network monitoring center in Kansas City.



LINUS TORVALDS

Special Report

SOFTWARE

the exclusive domain of Windows-based PCs. So far, Microsoft's Windows CE, a slimmed-down version of its PC software, has but 25% of the handheld market.

Rivals are pouncing. 3Com Corp.'s Palm device is flying off the shelves, and this month the company will unveil an even sleeker model that has analysts abuzz. At the same time, America Online Inc. and Yahoo! Inc. are deftly beating Microsoft in the Internet portal wars, while powerful non-Windows computer servers made by Sun and HP are selling fast. Even upstart Linux—the free server operating system that has long captivated the pocket-protector crowd—is suddenly getting attention from corporations. The most amazing part: Microsoft's server market share actually dropped a hair in 1998, after three years of skyrocketing growth.

To be sure, Microsoft's fortunes aren't plummeting. The company just posted a sizzling 38% increase in revenues and a 74% hike in earnings for the quarter ended Dec. 31. But signs of a slowdown in the server arena are unmistakable. Microsoft CFO Gregory Maffei predicted last month that Windows server sales growth will decline this quarter to mid-20%—down from 34% in the preceding quarter—due in part to stiffer competition from Novell Inc. and the Win2000 delay.

Novell is giddy with its newfound success. For a couple of years it had been on the critical list. But Novell beat Microsoft to the punch with the September delivery of its latest network operating software, NetWare 5. And for the first time in two years, it reported double-digit revenue growth in its 1998 fourth quarter. Says Christopher M. Stone, Novell's senior vice president for corporate strategy: "There has been so much hype about NT, but people are starting to figure out that emperor has no clothes."

Or perhaps, the suit is still at the tailor's. Rivals are celebrating, but this shindig may not last long. President Steve A. Ballmer is planning a reorganization that will align product groups with customer segments—so Microsoft delivers goods buyers really want. He is trying to woo back former Windows czar Brad Silverberg, known for getting products to the finish line. And Ballmer is crafting a new E-commerce initiative. "Microsoft does best when it has competitive threats," says analyst Christopher Galvin of Hambrecht & Qu

Microsoft's next big growth spurt won't start, however,

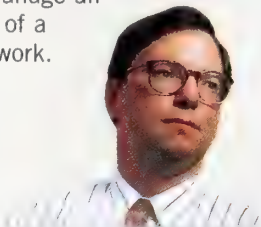
MICROSOFT STRUGGLES

LE His network-computer was a flop. Now Chairman Ellison is taking another stab at Microsoft with the database appliance. It's an database run- on a PC server—dows required. ne, Oracle powerful Hewlett-d.



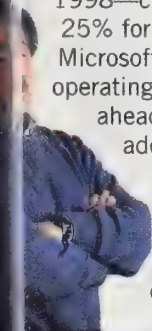
LARRY ELLISON

NOVELL Once the leading maker of networking software for corporate servers, Novell's share of new sales was eclipsed by Windows NT in 1996. But Novell's NetWare software isn't going away. Novell enjoys key advantages today that Microsoft can't match, especially the ability to centrally manage all the resources of a corporate network.



CHAIRMAN ERIC SCHMIDT

PALM COMPUTING The growing segment of the er business today is tiny ld devices. The undisputed the Palm from 3Com, which d 40% of the market in 1998—compared with 25% for rivals using Microsoft's Windows CE operating system. To stay ahead, 3Com is adding to its product line and working with thousands of software developers.



AN ERIC A. BENHAMOU

DELL & COMPAQ The giant PC makers remain committed to selling Windows-based machines, but both have broken rank of late to also offer servers running rival Linux. Moreover, Compaq is considering selling the Oracle database server appliance.



CHAIRMEN DELL AND PFEIFFER

in2000 ships. The company aims to release its third version on April 21 but won't say when the extravaganza ship. Analysts predict a truly dependable version won't be until next year. Sun's McNealy jokingly calls it Microsoft's problem."

Y TASK. He may have something there. Win2000 has more lines of code than the previous version of Windows. Microsoft's engineers have accepted the seemingly im- possible mission of creating a program that runs well on thing from a laptop computer to the equivalent of a rame. It's like building a car that can compete in the 500 and pull a horse trailer at the same time (page 69). Microsoft admits it has released buggy products in the and vows it won't issue Windows 2000 before it is 100%. Yet some are doubtful. An analysis by BugNet, an on- service that tracks problems with software, shows that y major iteration of Windows has been buggier than the efore," according to BugNet Editor Bruce M. Brown. s poor track record has caused a wave of ill will in the computing market, evidenced by proliferating bug sites : users vent frustration. Animosity toward Microsoft

also has spilled into the corporate sector, where crashes are measured in dollars and cents. Ask Howard M. Selland, president of Aeroquip Corp., a Maumee (Ohio) supplier of automotive parts. Factoring in lost productivity and bug-busting costs, the bill for upgrading to Windows 95 at his 50-person research lab came to \$20,000 a head. "If our products failed as often as Windows 95, we'd have been out of business long ago," says Selland.

GOING FOR DIVERSITY. If Win2000 doesn't break this dismal pattern, it could cripple Microsoft's bid to supply the software for a company's most crucial operations. Corporations are deciding not to lock themselves into any one maker's software. Even at Merrill Lynch & Co., which has a policy of adopting Windows NT aggressively, engineers have designed trading applications so they can be switched from one operating system to another. "We have to be diligent to protect from being overly dependent on any one company," says Vice-President Anthony Pizi.

This time around, Microsoft vows its software quality will be different. "Customers tell me to put up with the massive pressure and don't ship it until we've got it right," says James Allchin, senior vice-president in charge of Windows. When that happens, Win2000 will have a veritable army behind it. The company has enlisted 25,000 resellers. It expects to have 60,000 software applications running on the program. And major software developers such as SAP and Baan Co. are focusing their marketing on it. "Ultimately, the market will go where the applications are, and right now most of the application developers are focused on NT," says analyst Joseph Barkan of the Gartner Group Inc.

That's why competitors have to get their licks in while they can. Sun is Microsoft's fiercest rival. Last fall, it released a major upgrade of its Solaris Unix operating system that offers customers main-

frame-level capabilities. Sun also has traction in corporations because of its Java programming language, which is used to write software that runs on any computer, not just Windows-based machines.

The combination has boosted Sun's server sales—now growing at 30%, six times the overall Unix industry growth rate of 5%. Earthlink, an Internet service provider with 1 million subscribers, is one of Sun's converts. Earthlink rejected Windows NT after it estimated that it would take five times as many people to maintain Microsoft servers because things tend to go wrong with them. "Sun has taken great advantage of Microsoft's delays in putting out a true enterprise operating system," admits Bill Larson, CEO of Network Associates Inc., a software company that is closely aligned with Microsoft.

The software giant is used to battling Sun—and wins its share of skirmishes. But Linux could turn out to be Microsoft's Vietnam. The eight-year-old variant of Unix is designed by a guerrilla army of volunteers who distribute it for free. And official versions can be bought for just \$50 from companies that sell service and support. Computer executives

began taking Linux seriously when it captured 17.2% of the server market last year. "Suddenly, Windows NT isn't the thing that's taking over everything," crows the software's creator, Linus Torvalds. "The tide has shifted."

Linux is still difficult to install, and few stores sell it, so Torvalds' boasting may prove premature. Nevertheless, Linux' list of brawny supporters gets longer each day. Oracle, Netscape, and IBM are rewriting corporate applications to run on it. And PC makers Compaq, Dell, and HP announced they will ship Linux servers. "The Justice Dept. case has helped us a lot with PC makers," says Robert Young, CEO of Linux provider Red Hat Software Inc. "They don't have to worry so much because Microsoft can't be as aggressive as in the past."

BREAKING AWAY. Indeed, some of Microsoft's staunchest allies are beginning to give it fits. Lately, PC makers have shown a surprising streak of independence—especially given that Microsoft is their sole source for Windows. They're reclaiming some of the real estate on the PC's first screen and routing customers to Internet service providers and Web sites of their choice—rather than ones selected by Microsoft. Gateway Inc. even created its own Internet access service, which users activate by clicking an icon on the Windows desktop.

At the same time, computer makers are showing interest in selling machines that don't run Windows. And Linux isn't the only alternative. On Jan. 29, HP, one of Microsoft's closest allies,



THE LOCK Despite Windows' problems, applications people still design for it. The don't have a choice

MICROSOFT'S JIM ALLCHIN

duopoly, seems to be pulling against its pal these days. Intel, for example, invested in Red Hat and it also set up a conference for non-Windows server appliances on Jan. 28, inviting such PC makers as Dell and HP. Intel's strategy: boost anything that will create new demand for microprocessors, no matter what operating systems they run on.

In many cases, customers are concluding that Windows is simply

not the best operating system for the job. That's partly because corporations are consolidating their data-processing tasks on a few huge central servers—often Unix-based machines—rather than scattering them across hundreds of machines. PaineWebber Inc.'s brokerage business just made the switch. The goal: to cut costs on managing their global network by 66%, according to Senior Vice-President John Furlong. "The pendulum has swung, and it doesn't favor NT," says Morgan Stanley Dean Witter analyst Charles Phillips.

ONLINE WOES. Whom does it favor? IBM, for one. Pundits had written off its "big iron"-type computers, but now they're back in style. Federated Department Stores Inc. relies on IBM mainframes to power its Macys.com Web site, and IBM is getting surprising interest in its AS/400 midrange computer. Sales of its database for the AS/400 grew 90% last year.

Meanwhile, Microsoft has its hands full in some of the emerging markets. AOL seems unstoppable—boasting 16 million subscribers to its online service, vs. 2 million for Microsoft Network. AOL has proven that it has the Midas touch when it comes to developing the right package of online attractions to lure mass audiences—from chat to community-oriented sites.

Not so Microsoft. Its record as an Internet consumer Web site company is spotty at best. It has invested hundreds of millions of dollars in Microsoft Network and in online properties such as MSNBC, its joint venture with NBC, and has only red ink to show for it. A handful of the projects are hits, including the Expedia travel site and CarPoint auto sales site. But Microsoft's high-profile Sidewalk network of local arts and entertainment sites has been a bust. Its Web-site division has been without a permanent leader for three months, and, according to insiders, top outside prospects have spurned the job.

All told, Windows isn't looking like the supermagnet it once was. And unless Microsoft regains momentum quickly with Win2000 and some of its other initiatives, it might see influence dwindle further—and with it earnings. That's good news for competitors but not investors. They have bid Microsoft's stock up to nearly \$400 billion. If Bill Gates stumbles now—in court or in the marketplace—investors will end up being the ones with the real w2k problem in the y2k.

By Steve Hamm in Redmond, Wash., with Marcia Stepan in New York and Peter Burrows and Andy Reinhardt in San Mateo, Calif.

Special Report

SOFTWARE

purpose server that runs an Oracle database and doesn't require a complete operating system. Other specialty server appliances are in the offing as well, including ones for E-mail and security.

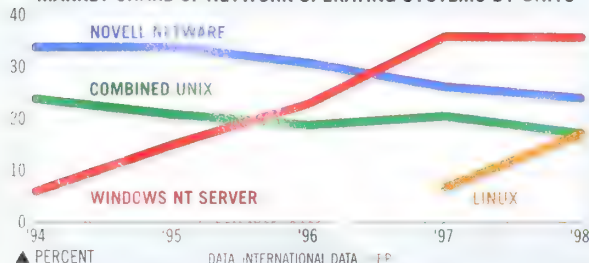
While Microsoft is toiling to make a do-it-all operating system, others are betting corporate customers will want simpler devices. Market researcher Dataquest Inc. estimates that more than 2 million non-Microsoft server appliances will be sold in 2002, taking about 20% of the market. "It's becoming an operating system-agnostic world," says Dataquest analyst Kimball Brown.

Even Microsoft's cohort Intel, the other half of the Wintel

allies, broke ranks and said it will start selling a so-called database appliance, a single-

MICROSOFT HITS A LULL

MARKET SHARE OF NETWORK OPERATING SYSTEMS BY UNITS



thinkpad.road trip



IBM

ThinkPad 560 ●

mobility

4.2 lbs*
1.2" thin*

price

\$2,699*

speed

mobile Pentium® II
processor 300 mhz

bytes

6.4gb hard drive
64mb memory

options

external cd drive
port replicator

@e-business tools



thinkpad.staple

ThinkPad® 390 ●

price

\$1,799*

speed

Pentium® processor with
MMX™ technology 233 mhz

bytes

3.2gb hard drive
32mb memory

media

12.1" active matrix display
integrated floppy/cd drive
integrated stereo sound

options

SmartCard security kit
port replicator

 e-business to

ThinkPad 600

speed

mobile Pentium® II
processor 300 mhz

mobility

5 lbs*
1.4" thin*

price

\$3,999†

bytes

6.4gb hard drive
64mb memory

media

13.3" active matrix display
swappable drive/battery bay
dvd drive, SRS 3D sound

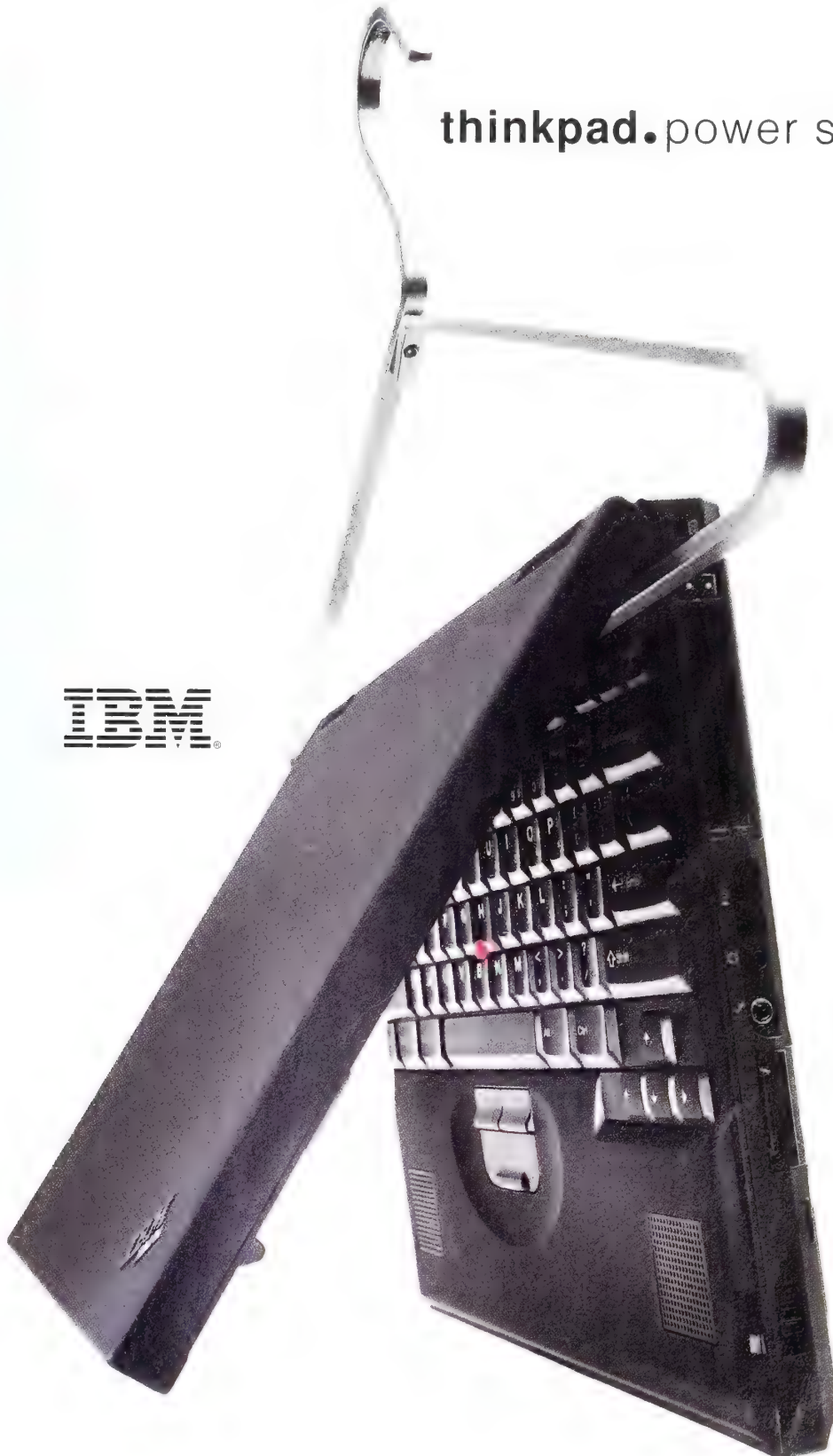
options

IBM e-business tools

docking station
SuperDisk (LS-120) drive

thinkpad. power suit

IBM



**Does it really matter what notebook you carry?
Or give to your people? Or use to present your ideas?
These are fair questions.**

In business today, the tools you and your people need to access and manage your business take on a whole new level of importance. They become not only workhorse but lifeline – the keys to the kingdom, your mobile mission control. This isn't just about doing spreadsheets at home, or doing e-mail on a plane. This is about actively running all the aspects of a business, or a department, or a supply chain from a small black box you can hold in your hand. This is ThinkPad.

**Pick one up and you'll feel solid, tight construction,
like a well-made tool built to last.**

Choose a ThinkPad. Any ThinkPad. Throw it in your bag. Pull it out of a taxi trunk. Plug it into that hotel jack. Start it up. Dial in. You're back at work. Type on it for a few hours. The more you use the keyboard, the more you'll like it. Switch from two batteries to one battery and a Zip drive. Pull the Zip and put in a DVD. Plug into a black, flat-panel monitor at the office and let them eat their hearts out. Park a docking station on your desk and never mess with cables again. This is engineering. This is ThinkPad.

Feeling more responsible than indulgent? Good.

The ThinkPad notebook you want costs less than you think, with fully equipped models starting at \$1799.* Own one and you'll feel wildly responsible. Because you, your work and your ThinkPad are backed by IBM. Not just by global IBM 24x7 phone support, but by EasyServ,[™] our door-to-door depot repair service.[†] Better yet, consider SystemXtra,[™] the best of IBM financing, service, support, upgrade and training options, completely customizable to fit the size and needs of your business, all consolidated into one monthly bill.[‡] This is IBM.

ThinkPad. This is a tool that matters.

www.ibm.com/thinkpad or 800 426 7255, ext. 5029

Business tools

IBM



THE MOTHER OF ALL SOFTWARE PROJECTS

Microsoft's Windows 2000 program is big. Really big. And it has problems to match



ers. To accomplish this, it's welding in pieces of software that rivals treat as separate programs.

And because the process has been under way for so long—since 1995—the design goals have shifted. Customers are demanding Internet-style software and more simplicity, adding to the time it takes to get it done. “This is a monumental project,” says analyst Jon Oltsik of market researcher Forrester Research Inc. “It’s the Panama Canal of software—but the oceans keep shifting on either side, too.”

To Microsoft’s critics, Win2000 is the ultimate act of hubris by a company they would like to see fall flat on its face. “It’s a cancerous growth of code,” scoffs William N. Joy, a top scientist at Sun Microsystems Inc., whose Solaris operating system is about one-third as large. Linus Torvalds, creator of the Linux freeware operating system, calls the making of Win2000 “witchcraft” and predicts Microsoft will

“I have a nice perspective on what it means to [run] the most important project in history”

— BRIAN VALENTINE,
Microsoft Corp.

have to lop off some features if it ever hopes to get the product out the door.

Microsoft’s top engineers are growing accustomed to the sniping. Their response: a prickly we’ll-show-’em attitude. “We just keep focused on customers and quality, no matter what stones are thrown,” snaps James E. Allchin, the senior vice-president in charge of Windows products. Still, Allchin admits that building Windows

Welcome to the software factory. Here, in buildings 9, 10, 26, 27, and 28 on Microsoft Corp.’s sprawling Redmond (Wash.) campus, the company’s mammoth Windows 2000 operating system is assembled and apart once every 24 hours.

The “daily build” begins at 6 p.m. That’s when engineers gather all of the new features and bug fixes thousands of programmers produced during the day and hem together like so many auto parts. Twelve hours—if all goes well—the build is done and quality assurance technicians take over. They test the code on 200 servers and ferret out anywhere from 250 to 400 new “Triage” teams comb over the bug reports and dole assignments. Programmers type away all day in their warren offices. Then, at 6 p.m., the whole process begins again.

a factory-style process, but this is no widget plant. With million lines of code, Windows 2000 is by far the largest and most complicated commercial software project ever undertaken, even IBM’s mainframe software. Microsoft’s goal: produce the first operating system that runs everything from aptos to “dumb” terminals to huge back-office comput-

2000 has been a soul-wrenching experience. “One day I can be horribly depressed, and the next day we’ll be in the clear again,” he says.

APRIL DEADLINE. The long and winding road has taken a toll. Moshe T. Dunie, a vice-president who had led the core engineering team, left on an unscheduled sabbatical in mid-December. “He had been building Windows full-time for 12 years,” explains Mike Nash, marketing director for server products. “When you miss your kid’s 12th piano recital in a row, you know you need a breather.”

But there’s no rest for the remainder of Microsoft’s army of engineers. Dunie’s replacement, Brian Valentine, 39, is a hard-driving individual who earned his reputation as a closer by delivering the company’s hot-selling Exchange corporate E-mail package three years ago. He has set an ambitious deadline of Apr. 21 for releasing the third and final Win2000 test version to more than 250,000 testers worldwide. Feb. 15 is lock-down day: After that, no new features are to be added. “The only

Special Report

SOFTWARE

Today, 50,000 people
will sign up for
cell phone service
(can your mother
be far behind?).

148 million people
might hop on
the **Internet**.

900 million
voicemail
messages will be lo
(not necessarily
returned).

5 -
ails
ice se

the time it
s to read
5 million
ails
be sent.

There's a communications
revolution going on.
And **one company**
is right in the center of it.

Lucent Technologies
Bell Labs Innovations

600 Mountain Avenue
Murray Hill, NJ 07974-0636
www.lucent.com
1-888-4-Lucent



We make the things that make communications work™

way you ever stop is you stop changing the code," he says.

Valentine has had no problem getting fired up for the job. He grew up poor in the sleepy town of Centralia, Wash. "I have a nice perspective on what it means to be in charge of the most important project in the history of mankind," he says. With that kind of hyperbole at his command, it's no wonder Valentine has been able to get the rest of the crew pumped up—again. They had fallen into a morale slump in the autumn after working overtime to release the second test version last August. Two weeks after Valentine took the job, on Dec. 22, he assembled 3,000 engineers in the cavernous cafeteria of building 26 and delivered an old-fashioned halftime rant.

WORKING HOLIDAY. It was nothing fancy. He laid out his 10 rules for success (Rule 1: Make decisions in 10 minutes) and his six rules for completing projects (Rule 1: Get into lockdown A.S.A.P.). He told them they were crossing the chasm from the design phase to release. And he told them how important the project is to Microsoft. The reaction? Cheers. Hundreds volunteered to work during the traditional one-week Christmas shutdown. "For him it was something new and exciting, and that kind of energy spreads," says Frank Artale, one of the engineering managers.

What's next? The grueling task of trying to make all the pieces of Win2000 work together, then work with the payroll, sales automation, and myriad other applications that customers are already using on thousands of different computers and peripheral devices. But quality isn't Microsoft's strong suit, according to Bruce M. Brown, who heads BugNet,

THE LONG AND WINDING WINDOWS NT ROAD

1988 Microsoft hired operating systems guru David Cutler from Digital Equipment Corp. to build a next-generation networking operating system. Cutler had designed VMS—the operating system that catapulted Digital into computing leadership in the 1980s.

1993 Cutler's project was released as Windows NT 3.1. It was Microsoft's first 32-bit operating system—resulting in faster processing and richer graphics. But the product was buggy, and only 29,000 copies sold that year. **Size: 6.1 million lines of code.**

1994 The second version, Windows NT 3.5, was faster and more stable. It proved particularly good for running small departmental databases and other software applications. **Size: 8.3 million lines of code.**

1995 With Windows NT 3.51, Microsoft made NT compatible with its Windows 95 desktop applications and added a Web server so customers could set up their Web sites without having to buy any special software. **Size: 10.1 million lines of code.**

1996 Windows NT 4.0 was Microsoft's first real attempt to create an operating system that could run large data-processing tasks. A 1997 update added the ability to cluster computers together for bigger jobs. That year, it took off with 1.6 million copies sold. **Size: 18.9 million lines of code.**

1999-2000 Microsoft promises to release Windows 2000, which it believes will manage even the most demanding computing tasks. The product includes a directory that keeps track of all users and information. And its IntelliMirror feature lets users plug into their personal information easily from any computer on a network. **Size: 30 million lines of code.**

SOURCE: COMPANY REPORTS

reputation. Under the so-called Rapid Deployment Program, 40 companies, including Merrill Lynch Co. and Ernst & Young, test updates of Win2000 once a month and keep in touch with Microsoft daily via E-mail and phone. When the time comes, the companies get to vote on whether Microsoft sends out the third test version. "If they can't deploy, there is no way we ship it," says Valentine.

So far, Microsoft's rapid deployment partners seem to be satisfied with its progress. "I haven't seen anything break the system," says John Parkinson, chief technologist at Ernst & Young. Merrill Lynch has found plenty of bugs, but no major design flaws. Still, even these allies are concerned about whether Microsoft will be able to make all of its features work well enough to be included in the final product. Last summer, when the version two shipped, there were big pieces missing. "There may not be enough software hours in a day to make it all work together," frets Gregor S. Bailar, chief information officer for the National Association of Securities Dealers, another tester.

BEATING BUGS. That's a fine thing about software. The more code you produce, the more bugs you get—typically at least five per thousand lines of code. So the solution isn't just throwing more people at the problem. Even Microsoft's Allechin admits

"We're on a treadmill." But Microsoft claims it's making progress. Artale says the number of Win2000 bugs wiped out in a day recently exceeded the tally of new bugs.

When will Windows 2000 finally ship? That's hard to predict. With such a complicated project, you never know when you'll run into a "show-stopper" that throws the schedule. Microsoft is only saying it expects the big event to come before the end of the year. The pressure to deliver is tense—both internally and from customers. Valentine says he gets half a dozen E-mails a day from Microsoft Chairman William H. Gates III. But the core message is always the same: Don't ship Windows 2000 before its time. As months go by, though, that may turn out to be a difficult order for Valentine to carry out.

By Steve Hamm in Redmond, Wash., with Otis Port in New York

Special Report

SOFTWARE

tagged bugs in the various versions of Windows faster than Microsoft could fix them.

Microsoft is intent on improving quality. Today it employs one tester for every programmer, up about 30% from the mid-'90s. And it's enlisting the help of customers to ensure that this product doesn't deliver another blow to its already poor

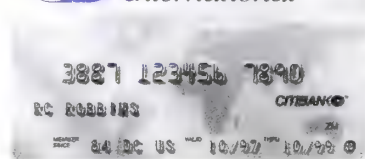
IF WE PACKED ANY MORE AIRLINES INTO OUR REWARDS PROGRAM, YOU'D HAVE TO CHECK IT AT THE GATE.



With our rewards program you don't get just one airline to use your miles on. You get 24 different airlines—not to mention their partners. And since there's no mileage cap or expiration date, you have the power to use your miles as you wish, when you wish. Also, to help you any time you need it, we make sure a real person answers the phone, 24 hours a day. Should your business trip run longer than expected, don't worry, we give you the convenience of an extra billing period to pay when you need it, interest-free. And, of course, the Diners Club Card is welcomed by airlines, hotels, car rental companies and millions of other places you go. Give us a call at 1 800 2 DINERS. You'll be surprised by the amount of benefits one card company can offer.



*Diners Club
International*



BREAKING THE PLASTIC MOLD.SM

CITIBANK

THE INFORMATION PARADOX

REALIZING THE BUSINESS BENEFITS OF INFORMATION TECHNOLOGY

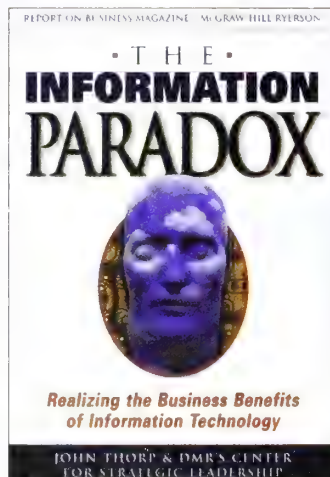
Is investing in Information Technology a smart move or merely an expensive corporate habit with little return?

Organizations today are investing in Information Technology (IT) like never before, to the point where spending on IT is the largest single element of capital investment for most enterprises. A wide range of desires is driving this spending—from routine productivity improvement to improved customer service to business transformation. Unfortunately, few of the executives approving multi-million dollar investments in Information Technology have a clear idea of the results that they expect to get. And once the money has been spent, they have trouble demonstrating clearly which benefits were actually achieved.

At the best of times, IT works productivity miracles and drives logistical breakthroughs. At the worst of times, advanced new information systems become "white elephants." Some major IT delivery projects are canceled. Others take twice as long to complete and may cost 200%—to—300% more than expected. When the technology is finally delivered to desktops, too many people may spend weeks "playing around" with new software instead of using it to produce business results.

The Information Paradox

The fact is that the increasing amounts of money being spent on IT are not being consistently translated into business value. This is the *Information Paradox*—the conflict between the widely held belief that investing in IT is a "good thing," and the all too frequent reality that we



The fact is that the increasing amounts of money being spent on IT are not being consistently translated into business value.

cannot demonstrate a connection between investments in IT and business results. In the words of Nobel prize-winning economist Robert Solow, "You can see computers everywhere but in the productivity statistics."

What the Information Paradox means, in practical terms, is that managers face excessive levels of risk when designing and delivering IT-based business solutions. There is a small pack of leaders who consistently make winning investments in big-ticket business applications of IT. There is an equally small group of stragglers who rarely get it right. Then there is the silent majority: those who get it right sometimes but not often enough. This "hit or miss" approach must be replaced with a more rational way of aligning risks with rewards. Two questions are key to the solution:

- First, how to pick the winning IT investments?
- Second, how to realize the benefits from these investments, and know that you have done so?

This book, important reading for all business managers, presents a unique approach to help you answer these questions. Called the Benefits Realization Approach, and developed by DMR

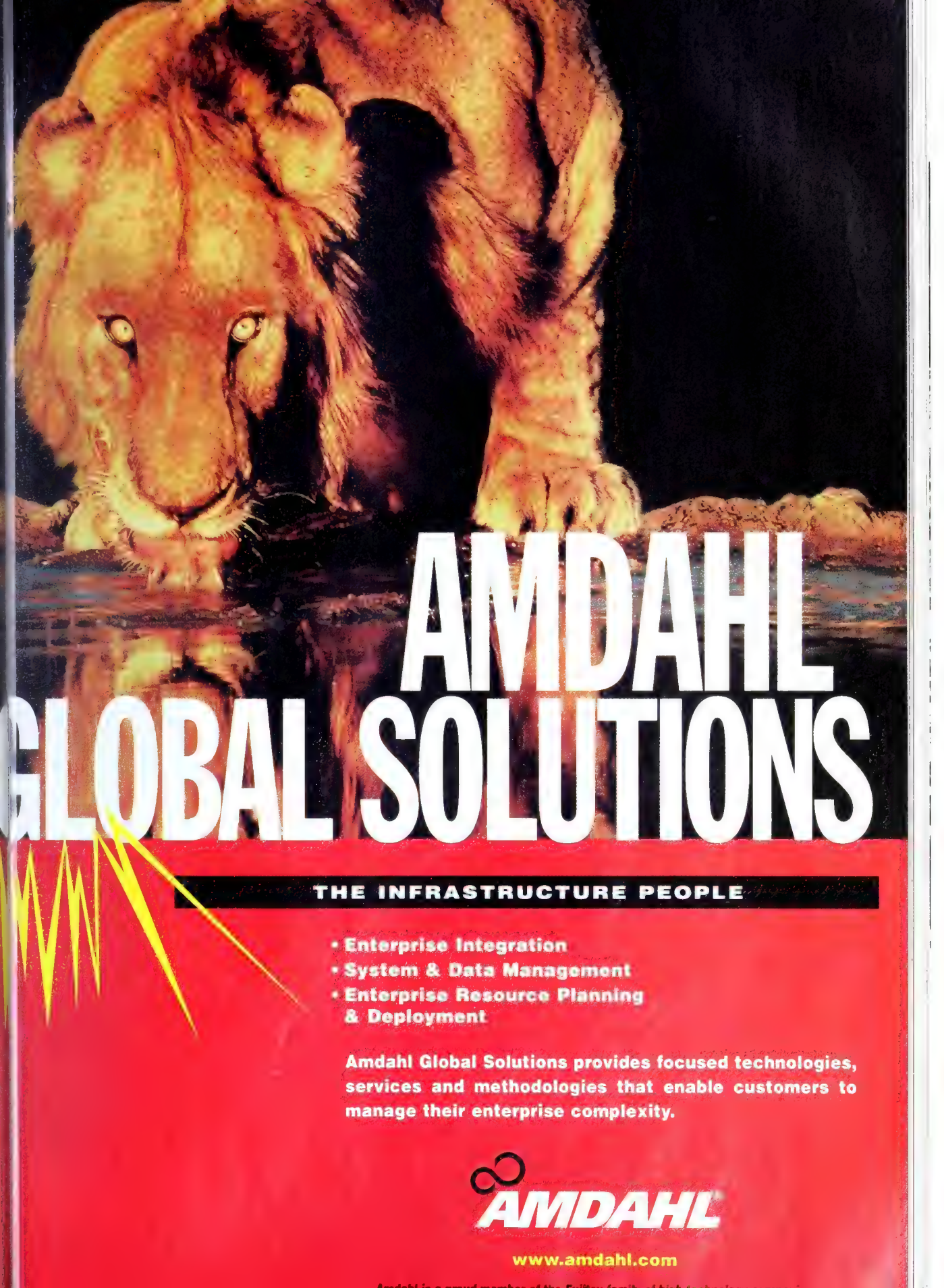
Consulting Group, a division of the Amdahl Corporation, it resolves the Information Paradox by introducing a new benefits-focused mindset that integrates technology with the process, organizational and people elements of your business.

Look for more information about THE INFORMATION PARADOX on www.informationparadox.com or to read a complete book chapter, please visit www.businessweek.com/ad_section/specad.htm

This summary of the Information Paradox is sponsored by



Please visit our sponsor's Web site at www.amdahl.com.



AMDAHL GLOBAL SOLUTIONS

THE INFRASTRUCTURE PEOPLE

- Enterprise Integration
- System & Data Management
- Enterprise Resource Planning & Deployment

Amdahl Global Solutions provides focused technologies, services and methodologies that enable customers to manage their enterprise complexity.


AMDAHL

www.amdahl.com

WHAT PENALTIES FOR MICROSOFT?

It's beginning to look as if the Feds may win serious remedies in court

On top of its growing frustrations in the marketplace, Microsoft Corp. has an increasingly serious problem in Washington. Its witnesses are getting shredded by the Justice Dept. in the landmark antitrust suit, while its high-priced legal team is bumbling simple videotaped presentations.

That doesn't bode well for Microsoft's big plans to turn products such as Windows 2000 and Windows CE into cash cows. As the company's legal fortunes slide, the odds are growing that trustbusters will be able to bar it from using some of the muscle tactics that helped to turn Windows 95, Windows 98, and Internet Explorer into such successes.

More important, the lawsuit is likely to have a profound cultural impact on the software industry—no matter who wins. Now that Microsoft's behind-the-scenes arm-twisting has been exposed to regulators, judges, and the public, CEO William H. Gates III and his minions will probably never be able to intimidate other companies the way they used to. "The marketplace will become a lot tougher" for Microsoft, predicts Ernest Gellhorn, a professor of antitrust law at George Mason University in Washington, D.C. "People will be more inclined to refuse deals, demand tougher deals, and sue them."

EXTREME STEP. Although the antitrust trial is far from over, it appears as if Justice will win at least a partial victory. If that happens, Judge Thomas Penfield Jackson could impose a wide range of remedies on Microsoft. At one extreme, he could seek a "structural" remedy, such as breaking the company up or forcing it to divest assets. This solution, which

used to be considered so radical that even Microsoft's enemies wouldn't defend it,

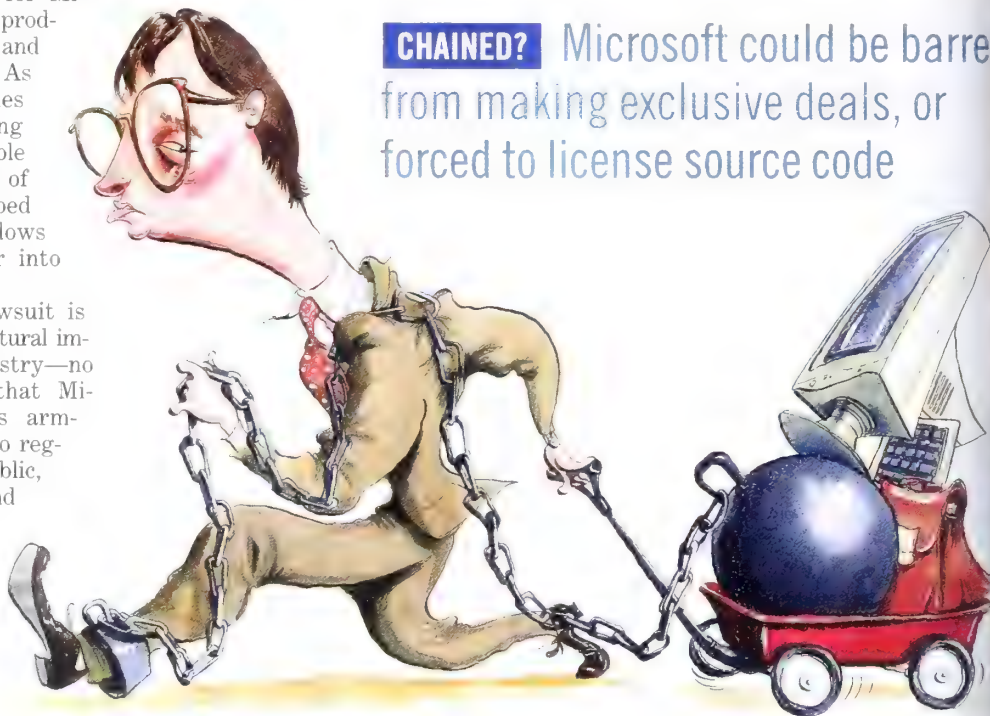
has been receiving more attention in recent weeks. On Feb. 5, former federal Judge Robert H. Bork, a legal consultant to Netscape Communications Corp., advocated splitting Microsoft into three self-sufficient parts. But there's probably not enough evidence of competitive harm for the federal judiciary to take such an extreme step, says San Francisco antitrust lawyer Samuel R. Miller, who helped to draft the Justice Dept.'s 1995 consent decree against Microsoft.

That leaves "conduct" remedies: restrictions on some of Microsoft's specific business practices. While far less onerous

than a structural solution, they could still put a big dent in the company's plans to tighten its hold on the desktop and conquer the enterprise and consumer-electronic software markets. For example, one of the key ways Justice claims Microsoft gained market share in the browser business was by pressuring business partners such as America Online Inc. and Compaq Computer Corp. to favor its Internet Explorer over Netscape's Navigator. To combat this practice, the government is expected to try to ban Microsoft from making exclusionary deals in the future—a remedy most experts recommend the judge might approve.

That would be more painful than it might appear. Just last month, Microsoft partners Compaq, Hewlett-Packard, and Dell Computer announced plans to sell server computers using Linux—a network operating system that is one of the leading threats to Windows NT. In the past, one of the ways

CHAINED? Microsoft could be barred from making exclusive deals, or forced to license source code



Microsoft would have tried to counter such a development would be to give the PC makers special incentives to ignore Linux, such as price breaks, prime real estate on the Windows desktop, or perhaps ad subsidies. But if the government blocks Microsoft from making exclusive deals, such tactics would be off limits.

Until a few weeks ago, a check on Microsoft's preferential deals was the only remedy most experts thought the Justice Dept. could pull off. But because of the surprisingly strong cross-examination of Microsoft's witnesses by David Boies, Justice's lead litigator, some now think the trustbusters could justify even stronger restrictions on the company's conduct. The key is coming up with remedies that don't require judges to make technical decisions about software or to get too deeply involved in supervising the industry.

The committee studying potential remedies, led by Timothy Bresnahan, a Stanford University economics professor who consulting with the Justice Dept. and the state attorney general suing Microsoft, isn't talking. But sources in contact with the committee say that one possibility under close consideration is forcing Microsoft to license the underlying source code to the various editions of Windows. That would give competitors the power to make their own Windows clones, thereby loosening the company's dominance of the software

Special Report

SOFTWARE

Canon Takes Presentation Technology From The Dark Ages To The Digital Age.



Introducing "Digital OHP."

Digital OHP Presentations: A Canon Exclusive.

The "Digital Overhead Projector," available only from Canon, combines the first affordable hi-res. (1900 x 1424 pixels) Digital Document Camera, with Canon's first optically-advanced LV-series projector to give you text clarity to 8pt. on a full 8 1/2" x 11" document) without transparencies, plus a whole lot more.

Patented Technology Means Breakthrough Pricing.

Canon's patented Parallel Plate 'Variable Refraction Optical System' is a unique technology that allows one CCD to give you the quality of nine, without the high cost.

Enhance Your PowerPoint® Presentations.

Within seconds, The Digital OHP allows you to access crisp type and incredible detail from documents, charts, graphs, even 3-D objects and integrate them into your PowerPoint presentation for maximum flexibility.

The Missing Link To Videoconferencing.

Unlike conventional document cameras, the Digital OHP optimizes your videoconferencing system, allowing you to share full document text and detailed images much like you would during a face-to-face meeting.

FOR MORE INFORMATION, PLEASE CALL (516) 328-5960.

E-mail us at vcsd@cusa.canon.com Website: www.usa.canon.com

DIGITAL OHP
Overhead Projector

PowerPoint® is a registered trademark of Microsoft.

Canon

VISUAL COMMUNICATION SYSTEMS DIVISION

Canon is a registered trademark of Canon, Inc. ©1999 Canon USA, Inc.

Most firewalls are like bullets

 Enter the Gauntlet Active Firewall.

EVER WONDER IF YOUR FIREWALL REALLY WORKS? HOW WOULD YOU KNOW BEFORE IT'S TOO LATE? THOSE NAGGING QUESTIONS ARE EASY WITH NETWORK ASSOCIATES' PATENT PENDING GAUNTLET ACTIVE FIREWALL TECHNOLOGY. GAUNTLET IS THE ONLY FIREWALL THAT COMES WITH CYBERCOP INTRUSION DETECTION BUILT IN, GIVING YOU INTEGRATION THAT CAN ONLY COME WHEN BOTH PRODUCTS ARE ENGINEERED BY THE SAME TEAM AT THE SAME COMPANY.

 Intrusion Detection & AntiVirus Built Right In.

CYBERCOP SCANNER, OUR VULNERABILITY ASSESSMENT MODULE, TUNES GAUNTLET BY SIMULATING AN ACTUAL HACKER ATTACK AND CRACKING PASSWORDS INSIDE YOUR NETWORK. WHEN CYBERCOP SCANNER COMPROMISES YOUR NETWORK SECURITY, IT CAN PROACTIVELY TERMINATE EXTERNAL WAN ACCESS WITHOUT ADMINISTRATOR INTERVENTION. PREVENTING THE BREAK-IN FROM BECOMING A REAL WORLD ATTACK. MEANWHILE, CYBERCOP NETWORK PASSIVELY MONITORS YOUR NETWORK



o of vests. That's the problem.

N
e
t
T
o
o
l
s

HACKER SIGNATURES WHILE
ERDOP SERVER AUDITS SYSTEM
FILES IN REAL TIME. TOGETHER
WEBSHIELD (AWARD-WINNING
VIRUS SCANNING FOR INTERNET
WAYS AND MICROSOFT NT PROXY
ERS), GAUNTLET ACTIVE FIREWALL
IDES THE ONLY COMPLETE,
GRATED SECURITY SOLUTION
ABLE TODAY.

st-of-Breed & Integration without Compromise.

YOU NO LONGER HAVE TO
OFFICE BEST-OF-BREED TECHNOLOGY
TIGHT INTEGRATION AND SINGLE
FOR SUPPORT. WITH GAUNTLET
VE FIREWALL, ANY SUSPICIOUS
ITY AUTOMATICALLY GENERATES A
BLE TICKET TO OUR MAGIC TOTAL
ICE DESK AND THEN ACTIVATES
TOOL'S EVENT MANAGER AND
LING MODULE — ALL WITHOUT ANY
IN INTERVENTION. IT'S LIKE DOU-
G YOUR NETWORK ADMINISTRATION
OWER OVERNIGHT.

e Product of Choice.

ITLET AND NETWORK ASSOCIATES
THE CHOICE OF THE US MILITARY

AND THE INTELLIGENCE COMMUNITY, NOT
TO MENTION BEING THE WORLD LEADER IN
SECURITY SOFTWARE. WE OFFER A
COMPLETE FAMILY OF NET TOOLS NETWORK
SECURITY AND MANAGEMENT SUITES,
MAKING US THE ONLY COMPANY TO
CHOOSE WHEN SECURITY REALLY MATTERS.

 **Net Tools: The Solution for Securing and Managing
your NT Network.**

NET TOOLS COMBINES THE COMPLETE
SECURITY OF OUR NET TOOLS SECURE SUITE
OF ANTIVIRUS, FIREWALL, INTRUSION
DETECTION, VPN, ENCRYPTION AND DIGITAL
CERTIFICATE AUTHENTICATION WITH NET TOOLS
MANAGER, THE WORLD'S LEADING NETWORK
PERFORMANCE MANAGEMENT SOLUTION AND
INTEGRATED SERVICE DESK. COMBINED, THEY
ALL BECOME NET TOOLS, THE ONLY
COMPREHENSIVE MICROSOFT WINDOWS NT
DISTRIBUTED SYSTEMS MANAGEMENT
SOLUTION. CALL 800-332-9966,
DEPT. 1943 FOR OUR **WHITE PAPER**
ON ACTIVE FIREWALL INTEGRATED
SECURITY SOLUTIONS OR VISIT OUR
WEBSITE AT WWW.NAI.COM. NOW
THAT'S BULLET-PROOF PROTECTION YOU CAN
COUNT ON. HASTA LA VISTA HACKERS.

White Paper: Active & Secure

McAfee Total Virus Defense

Sniffer Total Network Visibility

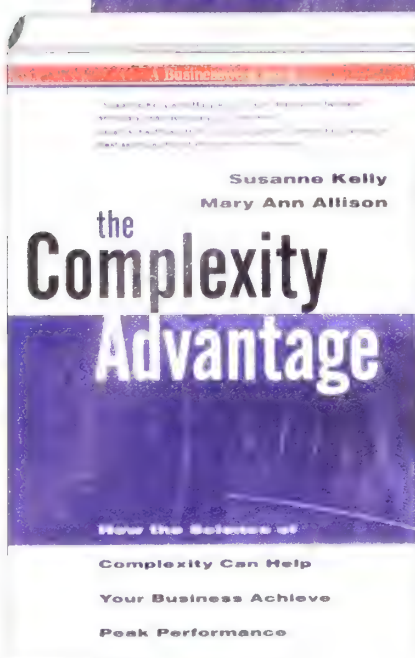
Magic Total Service Desk



Who's watching your network

"Finally, a book that reveals exactly how complexity theory really applies to business in the digital age. Fascinating, insightful, pragmatic, and well written."

—John Seely Brown, Chief Scientist of Xerox Corporation and the Director of its Palo Alto Research Center (PARC)



Transform any business, large or small ...

... into one that can consistently meet any challenge. Drawing on the authors' own experiences in companies from small startups to Citibank, here is the first guide for managers to apply complexity theory to the business world to increase efficiency and creativity, inspire new ways of leading, and make any business more successful.



Available at Bookstores Everywhere
Visit us at www.books.mcgraw-hill.com

A Division of The McGraw-Hill Companies

Special Report

market. But even though there's some precedent for this step—Xerox was forced to license copier patents in 1975—it's unclear if such a seizure of Microsoft's intellectual property would be upheld in the courts.

Another option under review is blocking Microsoft from integrating new features into its various operating systems or perhaps forcing it to carry other companies' products. But that path is a tough sell because it requires judges to make technical decisions for which they are ill-suited.

In the end, whatever remedies Justice wins, it's clear that the lawsuit has permanently eroded some of Microsoft's power. When the government first started investigating the company in the early 1990s, competitors and business partners alike were so afraid of retaliation that they refused to cooperate with the trustbusters. That climate of silence is gone forever. If Microsoft misbehaves in the future, "everyone in the industry now knows the phone numbers to call" at the Justice Dept. and state attorney general offices, observes William E. Kovacic, visiting professor of antitrust at George Washington University Law School.

NEW THREAT. Another factor that will limit how aggressively Microsoft can promote its new products is the threat of private antitrust litigation. Even if Justice wins on only some of its charges, Microsoft's rivals may be able to use many of the government's legal and factual findings against the company—dramatically cutting down the cost and risk of litigation. Notwithstanding a few suits by rivals in the past, that's the threat Microsoft executives have little experience managing.

Finally, it's possible that the government litigation may bring about a softening of Microsoft's aggressive culture. While Gates is well aware of how Justice's antitrust suit in the 1990s weakened IBM's competitive resolve and has repeatedly warned employees about this threat—the company is getting bashed in court. Kovacic believes that experience will "inevitably make the company more tentative" in the future. For example, it may be hard for executives who are being publicly vilified for doing things like threatening competitors not to think twice before making similar threats again. This factor is difficult to quantify, but it will inevitably play a critical role in determining the extent of Microsoft's dominance in the years to come.

By Mike France in New York, with Susan B. Garland in Washington, D.C.

Looking at B-schools? Make this your first choice



The *only* guide to feature accurate business school rankings and profiles by recent graduates and recruiters

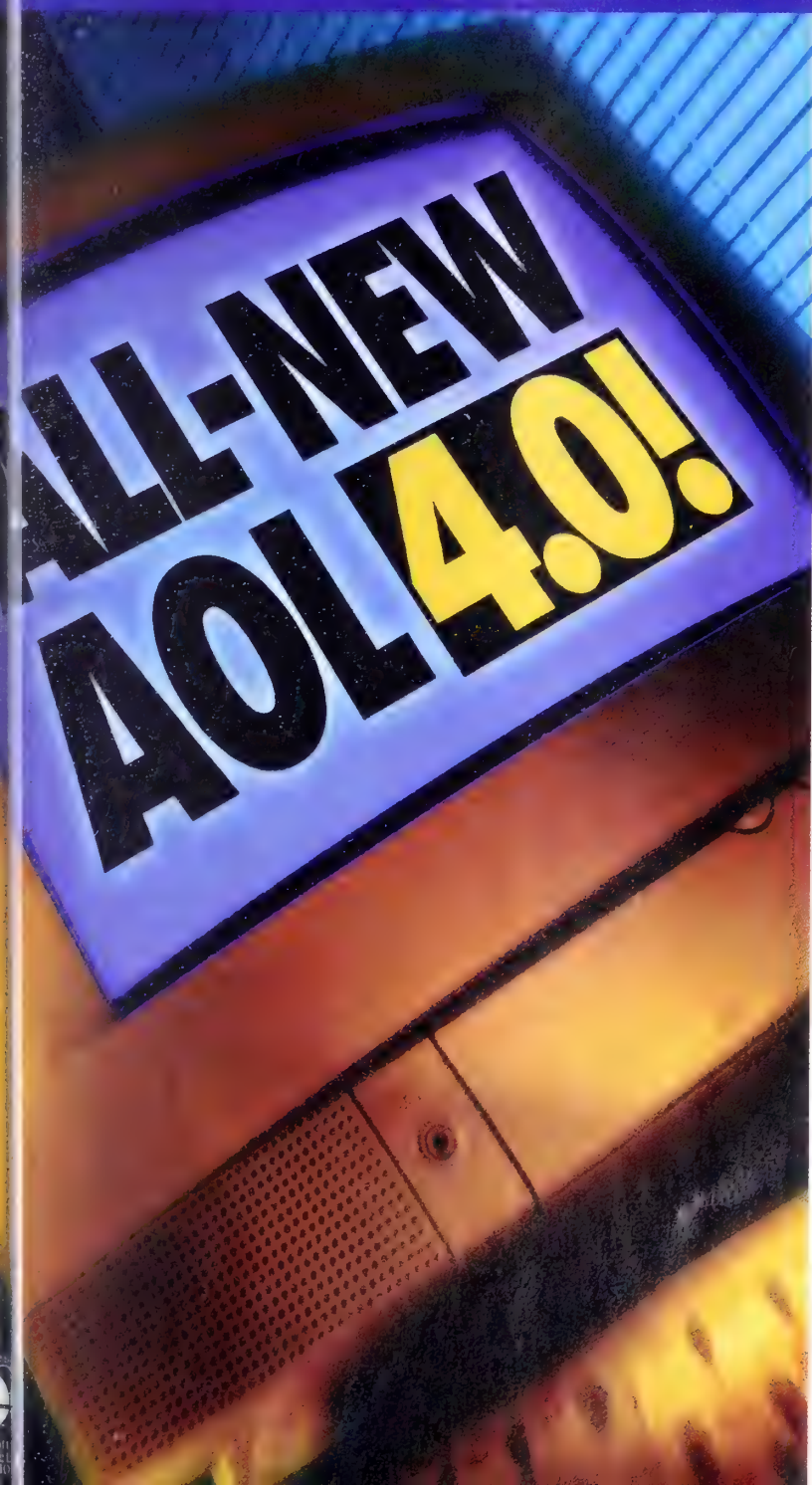
- **NEW!** Expanded ratings of more schools than ever
- **NEW!** Rankings of GMAT prep courses
- **NEW!** Comparisons of application software
- **PLUS!** Candid comments from the latest graduating classes, students' quality-of-teaching ratings, starting salary & bonus averages for graduates, and much more



Available at bookstores everywhere
Visit us on the Web at www.books.mcgraw-hill.com

A Division of The McGraw-Hill Companies

THE EASIEST INTERNET ONLINE SERVICE JUST GOT EASIER!



The all-new version of America Online is easier, faster and better than ever. It's a snap to install, comes with FREE 24-hour customer service, and connects you with lots of stuff you can't find anywhere else.

**TO EXPERIENCE
IT FIRSTHAND, CALL
1-800-4-ONLINE.**



So easy to use,
no wonder it's #1

Availability may be limited, especially during peak time



5,280 phone calls taken.
2,050 web queries resolved.
3,400 brochures sent.
1,450 questions answered.

What a great day.

Taking care of customers. That's what Corepoint Customer Relationship Management software is all about. With one end-to-end software solution, Corepoint supports everyone on your team — sales, marketing and customer service/support — anyone who touches your customer. Information is more accessible. People are more productive. So every customer contact can be maximized. Make every day a great day to build the customer loyalty that builds profits.

To register for our next free live telephone/web seminar on "Customer Relationship Management" or for more information on Corepoint, call 877-891-1606 today or visit our website at www.corepoint.com.

Corepoint
An IBM company

Turning customer satisfaction into loyalty.

CUSTOMER RELATIONSHIP MANAGEMENT SOFTWARE

STRATEGIES

GETTING OFF THEIR McBUTTS

In less than a year, changes made by CEO Greenberg have halted McDonald's slide

One year ago, McDonald's Corp. was serving a menu that consumers ranked among the worst-tasting of any restaurant chain. The Golden Arches had not launched a successful new product since Chicken McNuggets in 1983. And the company's stock was performing worse than cash sitting in a bureau drawer. Today, the food still trails the competition's, and there is still no new blockbuster on the menu—but McDonald's shares have risen 67% in the past 12 months, to \$80 each, about triple the growth rate of the Standard & Poor's 500-stock index.

What do investors see? It may not be obvious at your local Mickey D's, but a behind-the-scenes transformation is under way. New Chief Executive Jack M. Greenberg is leading an overhaul of the long-insular restaurant company that has made both franchisees and investors more optimistic than they have been in years. In a break with tradition, Greenberg has turned to outsiders to fill key posts. He is cutting 23% of headquarters staff, the first layoff in company history. And franchisees and corporate managers stationed in the field now make more of the decisions about when to discount and what food to test.

The result: McDonald's has found modest success with new products, including a bagel breakfast sandwich and the McFlurry sundae, and with regional discounts. Those were big reasons why average store sales climbed last year and overall company



BREAKFAST ROLLOUT: A new bagel will be in half of U.S. stores by summer

revenues rose 9%, to \$12.4 billion. "We're doing better," Greenberg said late last year, "and sales are the best test of all." Operating profits, excluding charges for the layoffs and investments in new kitchens, climbed 10%, to \$3.1 billion. "This was a company coming to a crisis," says Chris Davis, a portfolio manager at Davis Selected Advisers, which owns more than 9 million shares. "Greenberg's done a fantastic job bringing a new sense of urgency and getting rid of

their corporate arrogance." **SUNDAE BEST?** The McFlurry

Still, much of the lift came from a one-time drop in advertising costs and last spring's wildly successful Teenie Beanie Babies promotion. McDonald's is looking for another home run with its upcoming promotion featuring miniature Furby dolls. But the success will be hard to maintain long-term without better food, says Everen Securities analyst Dean T. Haskell. Indeed, consumers ranked McDonald's food 87th out of 91 chains in a poll last year by *Restaurants and Institutions*—and its score will be slightly lower in a new poll out later this month.

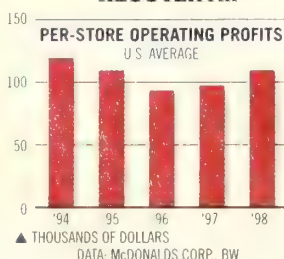
Says Alan D. Feldman, a former Pizza Hut Inc. exec who was named president of McDonald's USA last year: "We've got to improve our menu."

BIG RETROFIT. Enter "Made for You," a \$500 million upgrade of virtually every U.S. McDonald's kitchen. Instead of keeping food in taste-killing warming bins, the system uses computers to project customer traffic and an assembly line to keep lettuce cold and burgers hot—while making custom orders as simple as they are at Burger King Corp. McDonald's says the retrofit will be almost complete by the end of 1999.

Early response to the new system is promising. Frank Schley, a 42-year-old software company president, is impressed with the change at a McDonald's in Columbus, Ga., where he dined with his son, 8, of the same name. The restaurant is one of the 25% of U.S. McDonald's with Made for You already installed. "In the past, it was obviously an imposition to make a special order," Schley says. Adds little Frank: "I used to get some cold meals."

The improved performance is in stark contrast with recent years. McDonald's spent much of the '90s building hundreds of new U.S. restaurants, only to see its share of the fast food pie shrink. Franchisees were unhappy, and domestic operating income wasn't even keeping pace with inflation. The situation came to a head last April, when Michael R. Quinlan abruptly announced his resignation as CEO. The board promoted Greenberg, who had come from Arthur Young & Co. in 1982 and risen to chief financial officer.

AN EARNINGS RECOVERY...



...FUELS A STOCK REBOUND



Used by the

world's top

telecommunications

Companies.

EMC²

The Enterprise Storage Company

In this highly competitive industry where success is likely measured by how quickly you get new products to consumers, information management plays a critical role. By consolidating information and making it available to all, regardless of the computers in use, EMC Enterprise Storage™ provides strategic advantages that help the world's leading telecommunications companies protect, manage, and share their information to meet their most aggressive goals. To put The EMC Effect™ to work for you, reach us at www.EMC.com/toptelco or 1-800-424-EMC2, ext. 710.

EMC AND EMC ARE REGISTERED TRADEMARKS. EMC ENTERPRISE STORAGE, THE ENTERPRISE STORAGE COMPANY, AND THE EMC EFFECT ARE TRADEMARKS OF EMC CORPORATION. ©1999 EMC CORPORATION. ALL RIGHTS RESERVED.



Lotus.

An IBM Company



SUPERMAN CAN FLY BUT STILL GETS JETLAG

Is she Superman? Or does she use R5? The new Lotus Notes® and Domino make it easy to manage your world by giving you a single point of access to e-mail, calendars, intranets and Web sites, so you can be productive from wherever you are. Go to lotus.com/superhumansoftware

R5 ► SUPER.HUMAN.SOFTWARE

The Corporation

cial officer and then vice-chairman. McDonald's has been successful in such as pizza, the Arch Deluxe, and the confusing "Chicken McNuggets." Instead, he has focused on getting little things right. "They're being more conservative and more thoughtful," says Irwin S. Kruger, who owns six stores in Manhattan. McDonald's, with 24,800 restaurants worldwide, has closed almost 200 poorly performing U.S. units. It kept net U.S. expansion to less than 1% last year, compared with 9% a year from 1993 to 1996.

With new executives lured from companies ranging from Taco Bell Corp. to General Electric Co., the company is also starting to break from a past in which managers with a decade at McDonald's were considered new. Franchisees say

research. The company is using the data to help figure out when to discount. Starting in Florida and then on the West Coast, for example, store owners have responded to vigorous competition by selling burgers for less than the price of a candy bar on selected days. Says Tom Thompson, president of CKE Restaurants Inc. in Anaheim, Calif., which owns the Hardee's and Carl's Jr. chains: The "29¢ and 39¢ burgers have been wonderful for them."

GLOBAL SUCCESS. The chain is also experimenting with regional products. One, the bagel sandwich, will be available in about half of U.S. stores by midsummer. Containing meat, egg, and cheese, the bagel is an attempt to improve the Arch-



GREENBERG: Greenberg is a McDonald's executive.

es' appeal with adults. At a most \$3 each, it's costlier than other breakfast options—but it has the potential to "change the who mix," Greenberg says.

Investors like what they see so far: lower costs, higher earnings, and a buoyant new management team. They also are pleased with powerhouse international vision that is benefiting from the strong European econ-

omy while holding its own in Asia. If the Made for You system lives up to its billing, investors might even be willing to take some of their profits and spend more cash at their local McDonald's.

By David Leonhardt, with Andrew Therese Palmer, in Chicago, and by contributors

MICKY D WAKES UP AND SMELLS THE CILANTRO



BRANCHING OUT: McDonald's is opening Chipotle franchises.

You can find Steve Ells, a graduate of the Culinary Institute of America, zipping around Denver in a black BMW 540i. He likes to talk about cilantro, and he describes standard fast food as a warm piece of meat stuck inside a once-frozen bun. But when he names names, he's careful to talk only about Burger King Corp. and Wendy's International Inc.

That's the first clue that Ells, 33, doesn't specialize in haute cuisine. In fact, he is the founder and CEO of the only restaurant company in which McDonald's Corp. has ever invested. Named Chipotle Mexican Grill, it is a tiny but rapidly growing chain, which charges \$5 apiece for enormous meat-, rice-, and bean-filled burritos that are made to order in not much more than a minute. The food is spicy and fresh, every restaurant is

designed differently, and there is no kids' menu. "This is not the typical fast-food experience," says Ells. "This is something grown-up."

That is exactly what McDonald's executives like about the place. For the past decade, they have awkwardly tried to boost the Golden Arches' appeal to adults—from the failed test of a Boston Market-like store to the disastrous Arch Deluxe ad campaign that depicted grimacing children. Early last year, McDonald's decided to look elsewhere for help and settled on taking a minority stake in Chipotle.

The investment is a tacit admission that in today's crowded restaurant field, even the biggest player

may not be able to appeal to everybody. McDonald's says that within a year, it will likely determine whether to offer Chipotle franchises to existing McDonald's store owners. In the meantime, McDonald's hopes to glean some insights about how to appeal to adults in its own stores, says Pat J. Flynn, a McDonald's USA executive vice-president for strategic planning.

CROWDED FIELD. Chipotle runs 18 restaurants: 2 in Kansas City and 16 in the Denver area, where Ells launched the chain in 1993. Today, the outlets, with lines snaking out the door at lunch, bring in yearly sales of just above \$1 million each—about 20% less than an average McDonald's. By yearend, Chipotle could be in a half-dozen more cities.

It will face some tough competition. The restaurant industry has overbuilt in recent years, and a number of other "fresh Mex" chains, such as La Salsa, are expanding, too. But compared with the Arches' massive global operation, the bet on Chipotle is a small one. And both McDonald's and Ells are hoping it turns out better than their last linkup, when the teenage Ells quit his job serving Big Macs after less than two months. "There was nothing fun about it," he says. Must have been the lack of cilantro.

By David Leonhardt in Denver

Strong increase in 1998 Rhône-Poulenc's earnings

"1998 saw the successful execution of our strategy to refocus on life sciences, by creating and listing Rhodia on the Paris and New York Stock Exchanges and by announcing our intention to merge with Hoechst".

"Rhône-Poulenc's life sciences businesses, and pharmaceuticals in particular, are today experiencing dynamic, ongoing growth. The 1998 earnings demonstrate that our new products, such as the anti-cancer agent Taxotere®, the anti-thrombotic Lovenox®, the insecticide Regent® and the herbicide Balance®, are the key drivers of this growth. Moreover, the re-engineering measures implemented during the year are beginning to produce positive results, particularly in terms of enhanced profitability. Today we have a strong foundation which will ensure the success of Aventis."

Jean-René Fourtou
Chairman & Chief Executive Officer

1998 Consolidated accounts

Net sales: FF 86.797 billion/
13.232 billion € (+2.5%)⁽¹⁾

Net income:

FF 4.224 billion/644 million €

Excluding non-recurring items⁽²⁾:

• Net income: FF 4.210 billion/
642 million € (+23.2%)

• Earnings per share:
FF 11.45/1.74 € (+12.5%)

• Earnings per share excluding
amortization of goodwill:
FF 15.25/2.33 € (+11.8%)

Life sciences

Consolidated net sales:
FF 51.466 billion (+6.2%)⁽³⁾

Earnings from operations:
FF 8.701 billion (+25.2%)

■ Pharma ■

Rhône-Poulenc Rorer,
Pasteur Mérieux Connaught, Centeon

Consolidated net sales:
FF 34.484 billion (+7.2%)⁽³⁾

Earnings from operations:
FF 5.716 billion (+23.6%)

Sales of strategic products today account for 25% of pharmaceuticals sales, compared with 19% in 1997. Most countries experienced sales growth, with a very strong contribution from the American market.

Rhône-Poulenc
is a leading
life sciences company,
growing through
innovations
in human,
plant and animal
health



and through
its specialty
chemicals subsidiary,
Rhodia.

- Oncology (+42.4%)⁽³⁾: Taxotere®, sold in 68 countries, + 50.8 %⁽³⁾ to FF 2.244 billion; Campto® + 208 %⁽³⁾ and Granocyte® + 12.8%⁽³⁾.
- Thrombosis/Cardiology (+10.5%)⁽³⁾: Lovenox®/Clexane® + 33.1 %⁽³⁾ to FF 3.618 billion.
- Central Nervous System: Rilutek®, the only treatment authorized for ALS (amyotrophic lateral sclerosis), + 24.1%⁽³⁾.
- Respiratory/Allergy: Nasacort® AQ + 94.4 %⁽³⁾ to FF 498 million. The progressive stabilization of sales of Azmacort® (triamcinolone acetonide) is continuing, in line with objectives.
- Vaccines (+10.5 %)⁽³⁾: flu vaccines + 22.8 %⁽³⁾ to FF 1.053 billion and the injectable polio vaccine, Ipol® + 59.4%⁽³⁾ to FF 406 million.

■ Plant and Animal Health ■

Rhône-Poulenc Agro,
Rhône-Poulenc Animal Nutrition,
Rhône-Poulenc Jardin, Merial

Consolidated net sales:

FF 17.225 billion (+4%)⁽³⁾

Earnings from operations:

FF 3.586 billion (+16.8%)

Increase in sales volume of new products, such as the insecticide Regent® (fipronil) + 67.2%⁽³⁾ to FF 799 million and the herbicide Balance® to FF 412 million for its first year in major markets. Sales of the anti-parasitic Frontline®, +62% to FF 1.773 billion, rose rapidly both in Europe and the US. The launch of the anti-parasitic Eprinex® (ivermectine) on the cattle market allowed Merial⁽⁴⁾ to stabilize its position on this market.

Rhodia

Consolidated net sales:
FF 36.323 billion (-2.4%)⁽³⁾

Earnings from operations:
FF 2.717 billion (+30.2%)

Rhodia continued to improve its profitability, in line with its objectives. Further progress is expected to be made in 1999.

A gross dividend per ordinary share of FF 6 will be recommended by the Board of Directors at the Annual General Meeting of shareholders, on May 26, 1999.

⁽¹⁾ On a comparable basis.

⁽²⁾ Restructuring changes in the Pharma Sector and Rhodia, one-time costs linked to the temporary shutdown of the Centeon manufacturing unit at Kankakee (US) and a one-time loss linked to the divestment of certain polyester businesses.

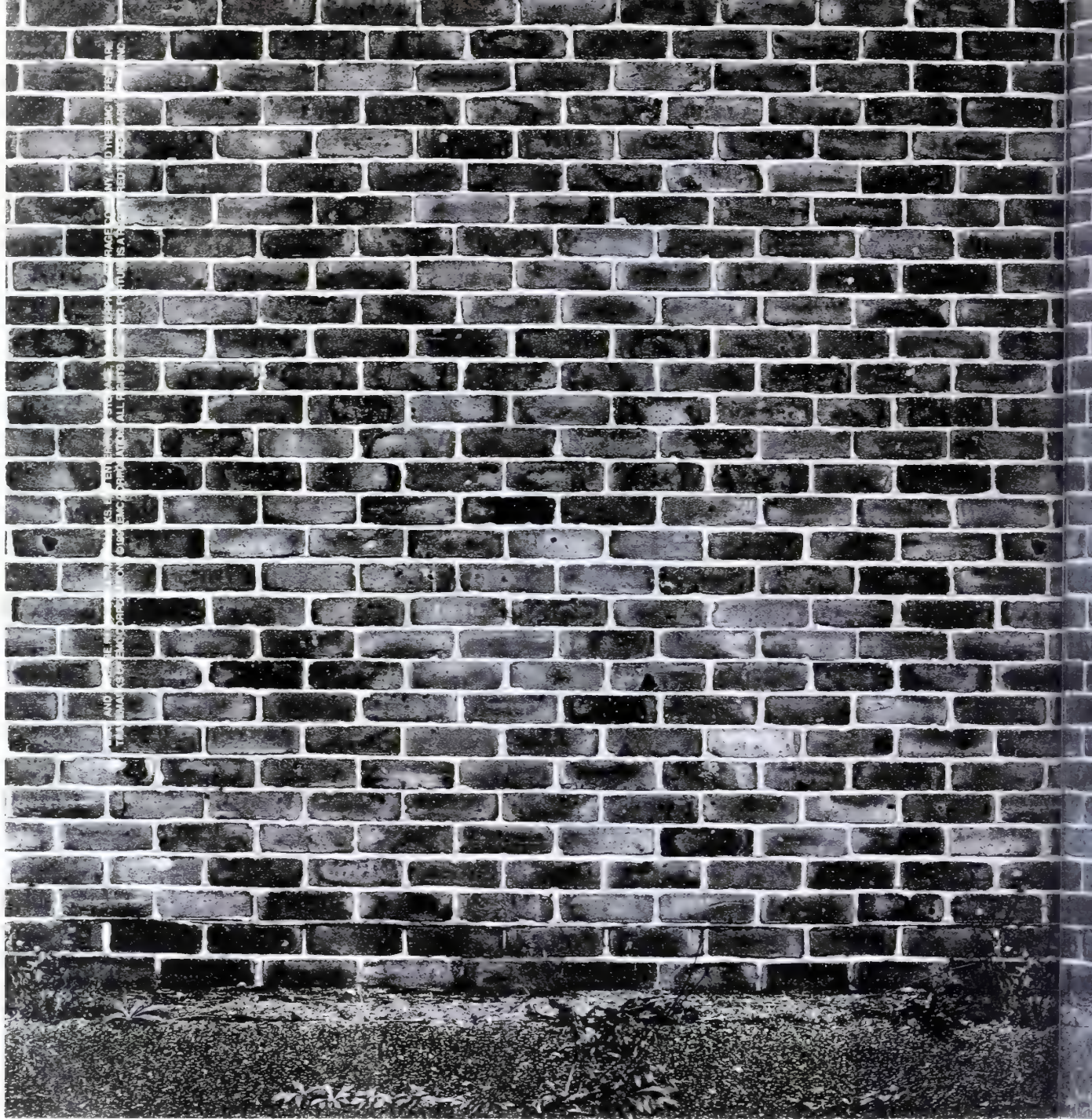
⁽³⁾ Excluding the impact of exchange rates.

⁽⁴⁾ 50/50 joint-venture with Merck & Co

Investor relations:

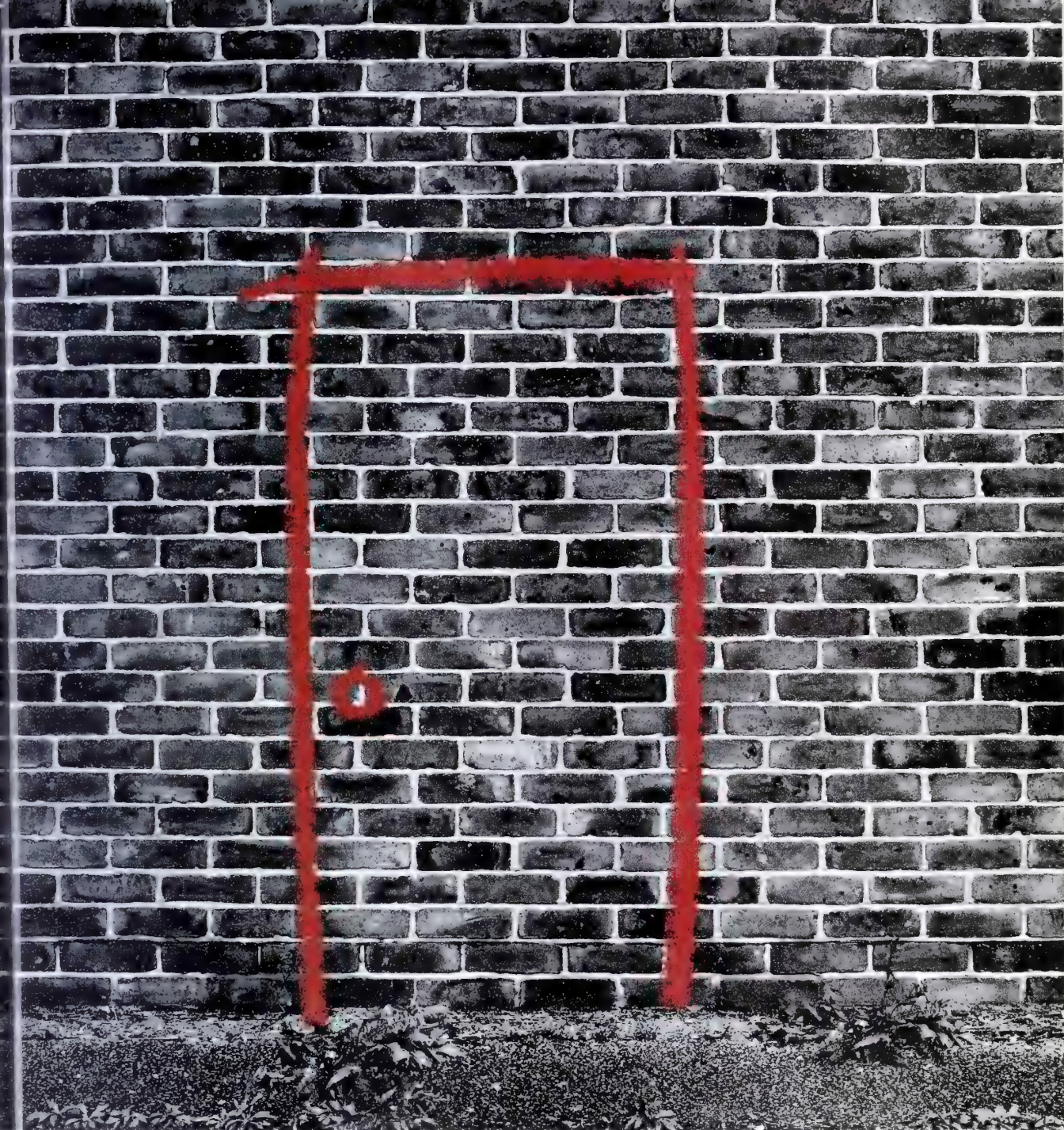
+33 1 47 68 07 05

Internet: www.rhone-poulenc.com



EMC²

The Enterprise Storage Company *EMC Enterprise Storage™ provides strategic advantages in areas such as cost control, time-to-market, Internet commerce, data warehousing, and customer service. Advantages that can create new business opportunities. How? By consolidating information and making it available to all, regardless of the computers in use. And*



**Protect, manage, and share
information in a way that
helps open markets that were
once closed to you.**



EMC's Enterprise Storage Network (ESN) promises to enhance data access, boost network performance, and automate storage management. It's no wonder over 90 of the FORTUNE® 100 companies are our customers. To put The EMC Effect™ to work for you, reach us at www.EMC.com/brickwall or 1-800-424-EMC2, ext. 702.

COMMENTARY

By Nanette Byrnes

AUDITORS AND CLIENTS: TOO CLOSE FOR COMFORT

It seems like a simple enough concept: An accounting firm should be free of influence from the companies it audits. But recent accounting breakdowns at Livent, Cendant, and other public companies are heating up debate over whether today's auditors are independent enough. "Accounting firms would prefer we think these are isolated instances and we don't need to do anything," says Lynn Turner, chief accountant at the Securities & Exchange Commission. But he adds: "We have to do something to make sure the auditor is skeptical."

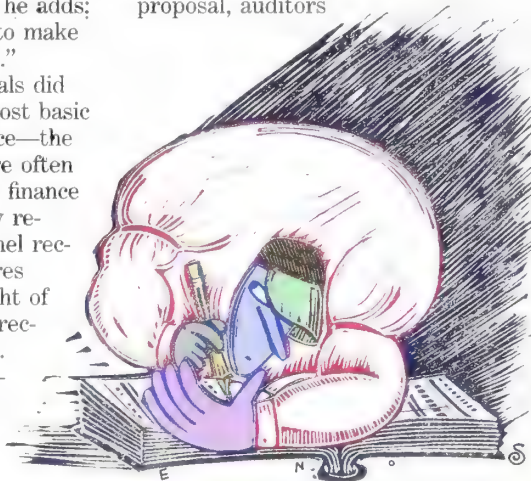
On Feb. 8, industry officials did something to address the most basic issue of auditor independence—the fact that outside auditors are often hired and fired by the same finance executives whose work they review. An SEC-sanctioned panel recommended a host of measures that would shift the oversight of auditors to outside board directors on the audit committee.

But while the surprisingly forceful recommendations are good, they only begin to scratch the surface. Key issues concerning the links among an auditing firm, its accountants, and its client companies have not been addressed. How to define an auditor's independence, for example, or what makes for a conflict of interest, are not even raised. If the SEC is serious about putting muscle into the weak guidelines that currently govern ties between auditors and their clients, plenty of work remains.

The main focus of the panel's recommendation was a proposal that the auditors of any company listed on the New York Stock Exchange or NASDAQ report to a board audit committee of knowledgeable independent directors. If adopted, that means the audit committees would select, evaluate, and, when necessary, replace the auditors. To flush out potential conflicts, auditors would also be required to "disclose relationships or services that may impact [their] objectivity and independence" to the audit committee. "It's a very bold initiative—a substantial change from

what's out there now," says Patrick S. McGurn of Institutional Shareholder Services, an adviser to large investors.

And that's not even the most controversial part. Today, auditors are required only to report that a company's books conform to "generally accepted accounting principles"—they don't have to point out if its accounting is too aggressive or inappropriate. But under the proposal, auditors



Recent proposals barely scratch the surface of what must be done

would have to discuss the quality of a company's accounting—and explain the judgment calls that management makes in tallying its results.

That's why the first big challenge will be to ensure that the proposal retains its teeth as it is debated over the next couple of months. Although the heads of both the NYSE and National Association of Securities Dealers helped to shape the recommendations, their passage will require the adoption of new listing standards. That means that some 9,000 listed firms and the exchanges' boards will get to weigh in. "They are going to be under a lot of pressure," says SEC Chairman Arthur Levitt Jr.

Even if that challenge is met, more are waiting. First up will be to clarify the extremely murky definition of what constitutes a breach of

auditor independence. One key issue worrying the SEC is the potential for problems when auditors from outside accounting firms go to work for their corporate clients. As compensation for chief financial officers skyrockets, such career moves are increasingly common. Just as tough an issue: the conflicting interests involved when an auditing firm also provides consulting advice to a client. With Big Five accountants getting ever more revenue growth from high-margin consulting, the SEC's Turner worries that auditors may be less vigilant with their consulting clients.

JOB-HOPPING RULES? The current proposal doesn't directly address either of these issues, but it is likely to fuel the already raging debate over how to solve them. A second SEC-sanctioned group, the Independence Standards Board, is soon expected to outline new auditor guidelines, starting with the problems raised when an auditor jumps to a client. Since the obvious solution—barring a job-hopping auditor from working on the books of a former client—may run afoul of right-to-

work laws, the Independence Standards Board is also considering requiring a company to change accounting

firms when it hires a former auditor.

Some would go further. Nell Mi-nnow, a principal for activist investor the Lens Fund, argues that all companies should be required to shift accountants every five to seven years to "get a fresh perspective on things."

Although such an extreme move would likely run into massive resistance from companies and auditors alike, the industry does need to show that it can come up with workable, effective solutions itself. And it needs to do so fast. Richard H. Walker, head of enforcement for the SEC, says future SEC accounting lawsuits will probably target players other than corporate management. Auditors and audit committees are likely to top the list.

Department Editor Byrnes follows accounting issues from New York.

3:13 p.m.
San Francisco
Concierge
Addis Rezene

*Conversant
in Japanese
and French.
Fluent in
English and
2-year-old.*



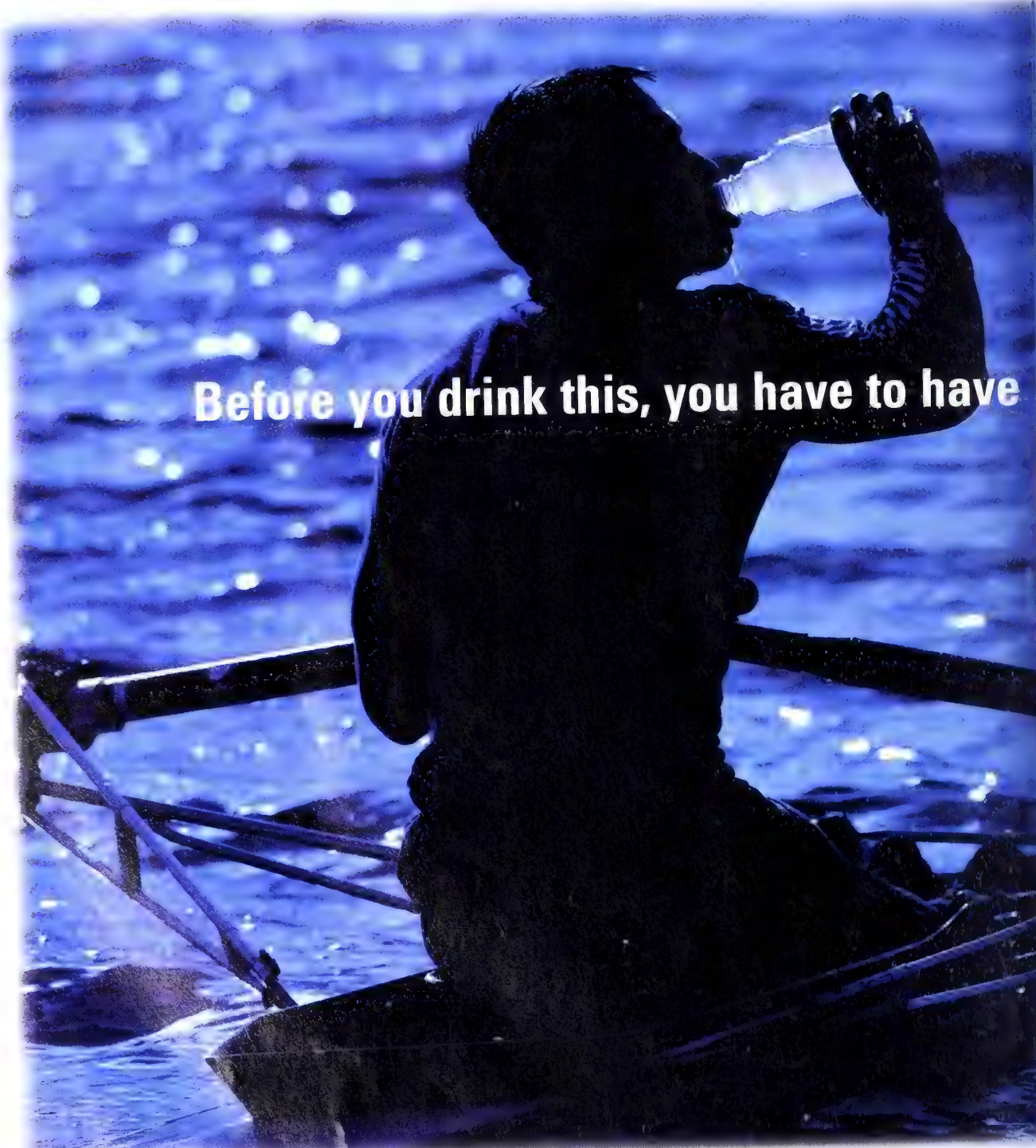
Radisson
HOTELS WORLDWIDE

The difference is genuine.™

The difference. You notice it the minute you arrive. In people like Addis Rezene. And the rest of our staff. People who are helpful and courteous not because it's their job. But because it's their nature. We invite you to experience the difference at any Radisson

For reservations call 1-800-333-3333, visit us at www.radisson.com or contact your travel professional

SIEMENS

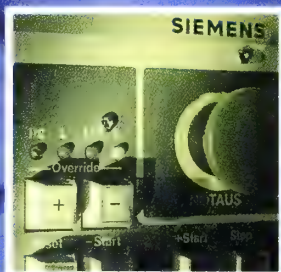
A man is shown in silhouette, sitting in a small boat on a body of water. He is drinking from a clear plastic bottle. The water is a deep blue, and the scene is backlit, creating a strong glow around the man and the boat. The overall mood is one of survival and thirst.

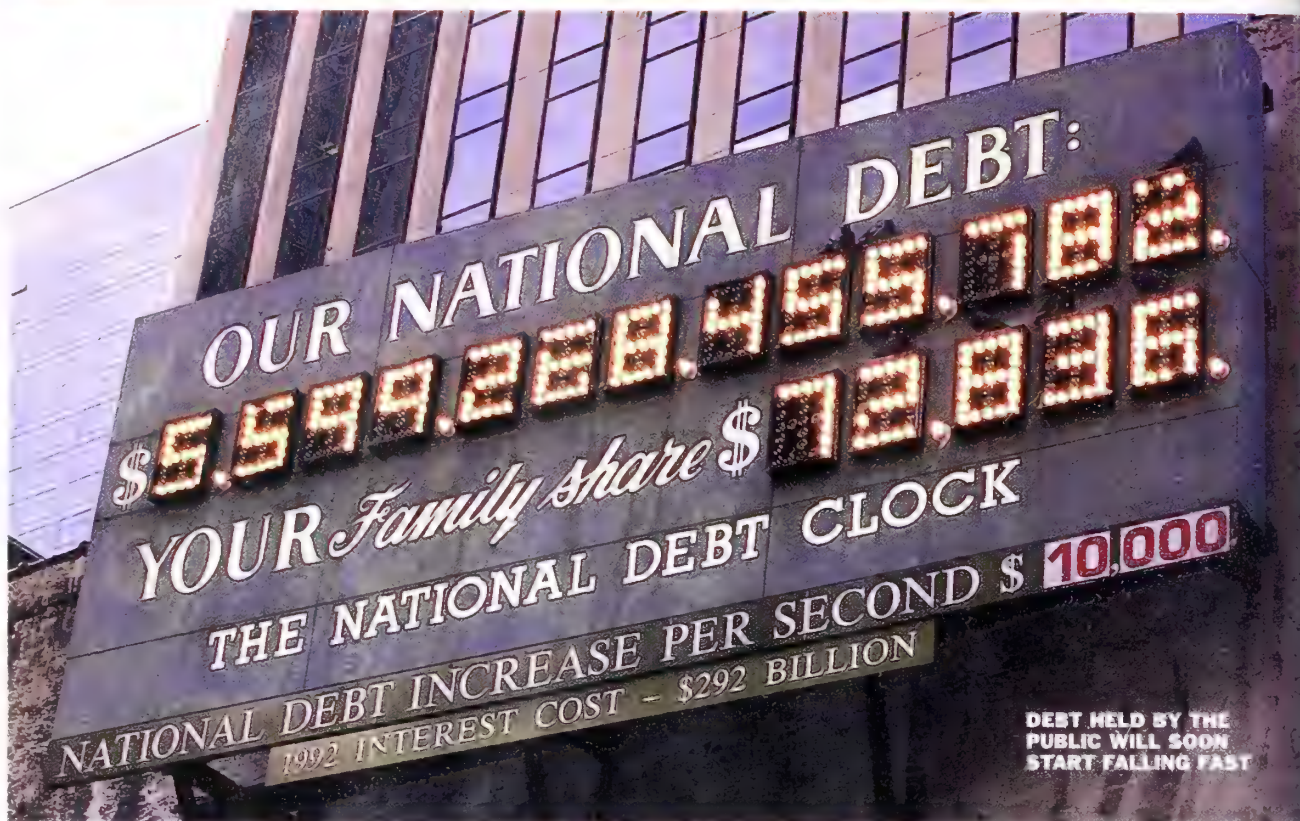
Before you drink this, you have to have

Automotive • Automation • Building • Consumer Electronics • Data • Energy • Healthcare • Industrial • Information Systems • Infrastructure • Power Generation • Telecommunications • Transportation

improve quality and productivity. From drive systems to complete building installations, from power distribution systems to turnkey assembly lines, we can provide any manufacturer with a stand-alone component or with a fully integrated solution. So whether you need the whole or the sum of its parts, talk to the people who are equally adept at both.

and this.





THE TREASURY

DEBT IS SHRINKING. IS THAT GOOD?

Yes, mostly—but investors are cautious, as issues of U.S. Treasury notes get scarcer

Mounted on a wall just off 42nd Street in Manhattan, the National Debt Clock is spinning forward at an alarming rate. According to its digital readout, the nation's debt is piling higher at a rate of nearly \$9,000 a second. The clock is a stern warning against profligate government spending.

One day in early February, BUSINESS WEEK called Durst Organization Inc., the real estate company that runs the clock, to point out that the portion of the national debt held by the public has been shrinking since last March. Shouldn't the clock start running in reverse? Nope, President Douglas D. Durst eventually decided. Durst's clock uses a debt measure that includes securities held by the Social Security trust fund. So

as the government prudently adds money to the Social Security trust fund, this particular debt measure will get bigger and bigger.

So Mr. Durst's clock is running behind the times—and he's not alone. The shrinking of the national debt is catching a lot of people flat-footed. The debt has been a reliable bugaboo of editorial writers and politicians since the 18th century, when Thomas Jefferson warned that a debt-issuing national bank would enrich "the tribe of bank-mongers... seeking to filch from the public their swindling, and barren gains."

OVERTURNED. Now that the debt is rapidly declining, though, not everyone is happy. Some assumptions are getting a severe shaking. For instance, it was conventional wisdom in the 1980s that the

"twin deficits" were linked—and that the federal budget deficit went away, would the trade deficit. Yet despite projected \$107 billion surplus in the federal budget this fiscal year, the trade deficit is bigger than ever.

The shrinking debt is also upsetting investors and traders who had assumed there would always be a strong flow of new issues of U.S. Treasury securities—the safest, most liquid investment in the world. Many foreign investors are nervous about owning any U.S. securities except Treasuries. But with the quantity of Treasuries going down, foreign investors will have to diversify their holdings. "I was in Frankfurt giving a presentation on this, and people's eyes were widening," says Kevin Igan, senior market economist at Dr.

A black and white portrait of Louis F. Storz, a middle-aged man with light-colored hair, smiling. He is wearing a dark suit jacket, a white shirt, and a dark tie. The background is blurred, showing what appears to be an industrial or office setting.

**Louis F. Storz,
senior vice president,
Nuclear Operations
PSE&G,
talks about
Dale Carnegie Training®**

Culture change: "Dale Carnegie Training® had a lot to do with the transformation of this organization from a negative, low-productivity workforce to one that finds ways to get the job done."

Empowerment: "People achieved goals previously viewed as impossible."

Teamwork: "Dale Carnegie Training® created an atmosphere in which people could talk openly to each other. This enhanced teamwork and gave people more confidence in their role as leaders."

Self-confidence: "I saw Dale Carnegie Training® reinforcing people's belief in themselves. It allowed for a renewal of self."

To read more of PSE&G's story—
and to see how you can give your
employees this kind of edge—
visit our web site at:

www.dalecarnegie.com

You'll learn about all of our training
options, including team-building,
leadership, and relationship selling.
Or, to find the licensed representative
nearest you, contact us:

1-800-231-5800 Ext. 707

www.dalecarnegie.com



**DALE CARNEGIE®
TRAINING**

Recognized by the American Council on Education and accredited in the U.S.
and Canada by the Accrediting Council for Continuing Education & Training.
Copyright©1998 Dale Carnegie & Associates, Inc. All rights reserved.

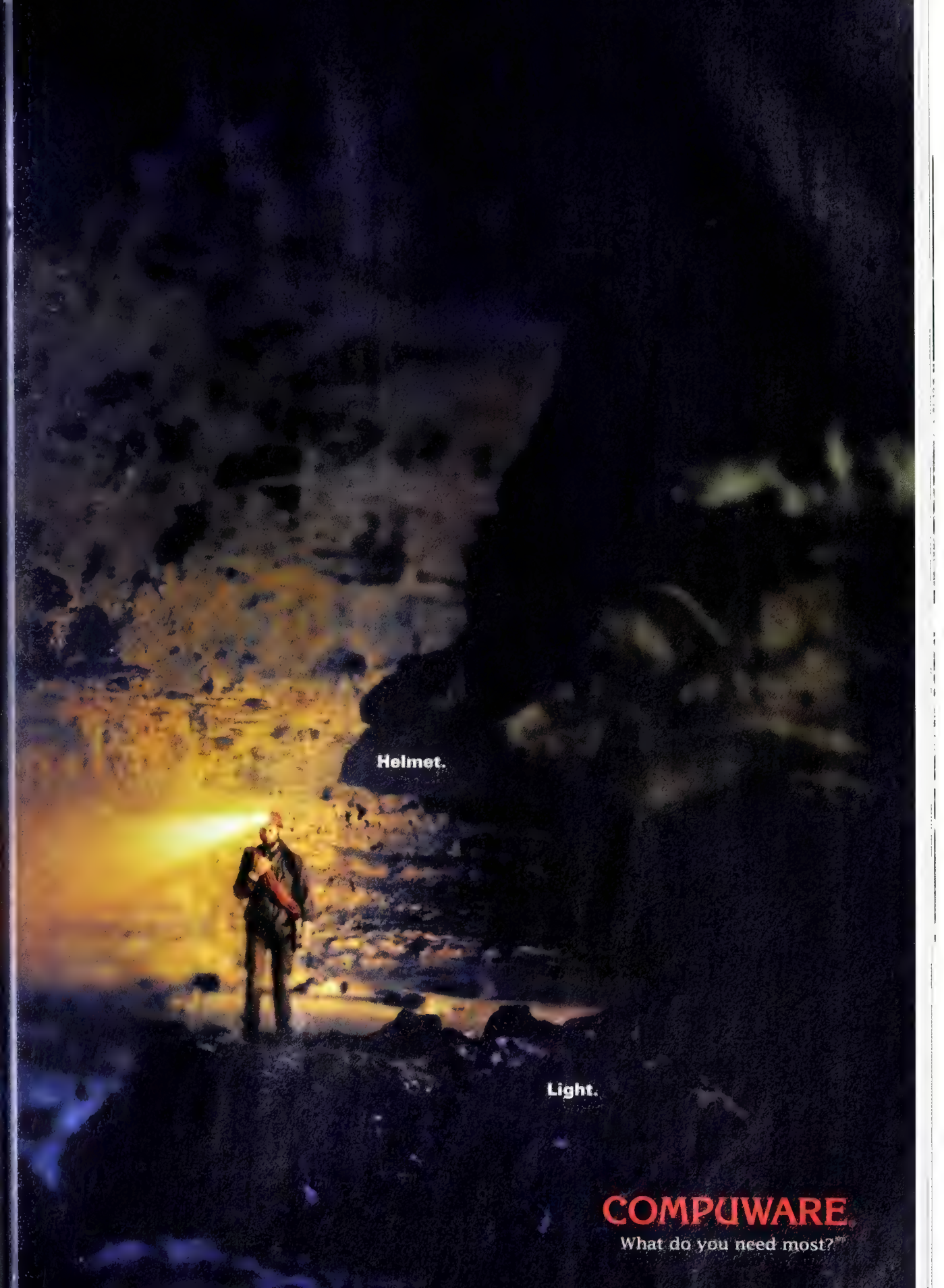
IN A PLACE LIKE THIS, THERE ARE A FEW THINGS YOU COULD USE.

Rope.

Boots.

Images courtesy of Getty Images. 800.465.4326. compware.com

Nothing else matters until your basic needs are met. However, it's easy to overlook obvious answers to your information technology problems. Our objectivity can help. It already has for four out of five of the world's largest companies. We never stop asking what do you need most? People and software for business application.

A person wearing a headlamp and a dark jacket stands in a dark, rocky cave. A bright beam of light from the headlamp illuminates the ground and the surrounding rock formations. The scene is dimly lit, with the primary light source being the person's headlamp.

Helmet.

Light.

COMPUWARE
What do you need most?SM



Whether your customers are delighted,
or simply delighted to leave, revolves
around knowing your customer data.

That's why you need the SAS[®] Solution

Who are your most profitable customers...and why? How many customers are you losing... and why? What value do your customers see in your products and services...or those of your competitors? Instead of just storing your customer data, explore all the possibilities with the SAS Solution for Customer Relationship Management.

It's the only software that integrates the full scope of managing customer relationships. Collect information at all customer contact points...then analyze data to better understand customer needs. Refine business strategies around your most profitable customers. Determine lifetime customer value. All by just pointing and clicking.

To find out more, and request a free *Guide to Customer Relationship Management with the SAS[®] Solution*, visit us at www.sas.com/crm

Profile customers

Assess marketing ROI,
analyze churn, and more

Award-winning data
warehousing capabilities

Fully Web enabled

Year 2000 compliant



SAS Institute Inc.

The Business of Better Decision Making

www.sas.com/crm E-mail: bw@sas.com Phone 919.677.8200

SAS is a registered trademark of SAS Institute Inc. Copyright © 1998 by SAS Institute Inc.

Kleinwort Benson in New York. make no mistake: On the whole, a sinking national debt is a good thing. A string of federal budget surpluses will lower interest rates and the trade deficit—what they would have been otherwise, while adding—slightly—to the country's long-run growth rate. "A government surplus means that the government is adding to national saving, not borrowing national saving," says Harvard University economist Benjamin M. Friedman. "The more saving we have, the more investing we can do. The more investing we can do, the more productive it will become."

The Congressional Budget Office (CBO) recently calculated that if there were no tax cuts in the next 10 years and no discretionary spending increases above the rate of inflation, federal debt held by the public would fall from about \$3.7 trillion in 1998 to \$1.2 trillion in fiscal 2009. The debt would shrink from 44% of gross domestic product in 1998 to just 14% in 2009. As debt principal falls, interest payments on it get smaller as well, making the principal easier to pay down.

WITH UPTICK. Under the CBO scenario, interest rates would average about 0.7 percentage point lower than they otherwise would. The CBO says, however, that the impact on economic growth would be relatively modest—less than 0.1 percentage point annually. Why such a small effect? Mainly because the increase in business investment in the projection—about \$1.25 trillion—is small compared with a total stock that will soon exceed \$10 trillion. "The capital stock is huge. You need to have a lot of investment to increase the rate of growth," says Robert Brusca, chief economist at Nikko Securities Co.

Only about half of the budget surplus is likely to find their way into increased investment. The increased saving the government will be partially offset by decreases in saving by families and businesses. For instance, families can't be expected to save as much when their taxes go up to generate black ink in the treasury. Of the new investment that does get made, roughly 60% will be domestic and 40% foreign, the CBO estimates. Say the investment causes the domestic capital stock to rise by an extra \$75 billion a year and the return on that capital is a little under 10%. It doesn't add much

growth to an economy whose annual output is nearing \$10 trillion.

The CBO isn't actually predicting the debt will shrink by \$2.5 trillion—only that it would do so in the absence of tax cuts or new spending programs. On the other hand, other forces could make the debt reduction even bigger. The CBO assumes economic growth of 2.3% to 2.4% over the coming decade. If growth were half a percentage point stronger, debt might decline \$800 billion more than the CBO says, bringing it to within a stone's throw of zero.

Just as dramatic as the economic impact of the debt reduction is the effect of an emerging shortage of Treasury debt on the financial markets. One reason investors prize Treasuries is that, in addition to being safe, they are plentiful and heavily traded, so it is possible to buy and sell them in large quantities—\$100 million or more at a shot—without affecting prices. That will become less and less possible as issuance shrinks.

The Treasury Dept. recognizes the problem. It has already cut back on the frequency of issuing some securities, from 5-year notes to 30-year bonds, so that each batch issued will be big enough to satisfy demands for liquidity. But some players say it needs to go further. "Even at the current level, the issues are too small, and they're going to get smaller," says Ken Fan, a bond strategist at Paribas Corp. in New York, a unit of France's Paribas. With small issues, he says, big dealers can corner the market.

Nikko's Brusca says the Treasury



should cut way back on issuance of its innovative inflation-protected securities because they are sucking demand—and liquidity—away from conventional bonds.

Fannie Mae and Freddie Mac, the government-supported enterprises that fund mortgage loans, have stepped into the breach by selling debt in a form designed to appeal to investors who ordinarily buy Treasuries: large batches in a wide range of maturities. The debt has the implicit, though not legal, backing of the federal government. One effect is to encourage home buying by keeping mortgage rates low. Indeed, last year saw record housing construction.

Trouble is, there's only so much paper that Fannie Mae and Freddie Mac can produce. Foreign central banks aren't interested in holding corporate debt or equity. The likelihood, then, is that debt markets will become segmented.

Americans will own a shrinking share of their own nation's sovereign debt because it will be in such demand by foreigners.

More alarmed than long-term investors are those who use Treasuries for hedging, for collateral, and for a benchmark to determine prices of other debt securities. Much of modern finance is built around the idea of a "risk-free security," such as Treasuries. Richard F. Meyer, a finance professor at Harvard business school, says financial engineers may eventually try to concoct substitute risk-free securities, possibly by forming pools of top-rated corporate bonds in which payment promises are overcollateralized for extra safety.

Paying down the national debt will create complications, but as Meyer suggests, markets are sure to come up with creative solutions. In any case, transition pains are a small price to pay for a stronger, more efficient, and less indebted U.S. economy.

By Peter Coy in New York

WYDOWN? The CBO says U.S. debt will shrink from \$3.7 trillion to \$1.2 trillion by 2009—but only in the absence of tax cuts and fresh outlays



Performance. A range of screaming-fast Intel® Pentium® II processors up to 366MHz. Spacious hard drives up to 6.4 billion bytes. No matter which Satellite® 4000 series model you choose, you can count on plenty of horsepower and capacity at a very competitive price.



Brilliance. Stunningly vivid TFT active displays rival the viewable area of desktop 3-D sound systems with Stereo Bass Reflex speakers ensure dramatic audio. Features like these make your most demanding multimedia applications have an extraordinary dynamic impact.



When you have to trim the budget,
but you can't afford to cut performance.

Connectivity. 56K V.90 modems accelerate Internet and remote access to the new standard in high-speed communications. The Satellite 4000 series connects easily to desktop accessories and networks through convenient built-in ports or optional docking accessories.



Design. The slim, convenient all-in-one design, including built-in 24X max. speed CD-ROM, floppy and hard disk drives, give you the tools you need without any add-ons or plug-ins. So you get top performance at an affordable price from the world leader in portable computing. Call 1-800-TOSHIBA or visit www.toshiba.com.

TOSHIBA

The World's Best Selling Portable Computers.

These powerful solutions re



Satellite® 4080XCDT

- Intel Mobile Pentium II processor 300MHz
- 6.4 billion byte hard disk drive
- 14.1" dia. TFT active-matrix color display
- 64MB high performance Synchronous DRAM
- 24X max. speed CD-ROM
- Integrated 56K V.90 Modem
- ESS audio with 3D Sound Support
- Windows® 98 operating system

\$3,199

Satellite 4020CDT

- Intel Mobile Pentium II processor 300MHz
- 6.4 billion byte hard disk drive
- 13.3" dia. TFT active-matrix color display
- 64MB high performance Synchronous DRAM
- 24X max. speed CD-ROM
- 3Com-Noteworthy 56K PC Card modem with V.90 support
- Yamaha 3D sound effect-enabled
- Windows 98 operating system

\$2,499

Satellite 4010CDT

- Intel Mobile Pentium II processor 266MHz
- 4.1 billion byte hard disk drive
- 12.1" dia. TFT active-matrix color display
- 32MB high performance Synchronous DRAM
- 24X max. speed CD-ROM
- 3Com-Noteworthy 56K PC Card modem with V.90 support
- Yamaha 3D sound effect-enabled
- Windows 98 operating system

\$1,899

Satellite 4010CDS

- Intel Mobile Pentium II processor 266MHz
- 4.1 billion byte hard disk drive
- 12.1" dia. Color bright dual-scan color display
- 32MB high performance Synchronous DRAM
- 24X max. speed CD-ROM
- 3Com-Noteworthy 56K PC Card modem with V.90 support
- Yamaha 3D sound effect-enabled
- Windows 98 operating system

\$1,399



To find out more, call 1-800-TOSHIBA or visit www.toshiba.com.

comfortably on your bottom line.



Equium™ 7100D

- Intel Pentium II processor 450MHz
- 128MB high performance Synchronous DRAM
- 8.0 billion byte hard disk drive
- 32X max. speed CD-ROM
- Integrated 3Com Fast EtherLink® XL 10/100
- Instant Access Door for improved upgradeability and serviceability
- Value Keyboard
- Windows 95 operating system
- Desktop chassis with 5 drive bays and 4 slots. Slimline chassis available with 3 drive bays and 2 slots

\$1,549*

7100D PV1046U-PD4J0
7100S PV1045U-PD4J0

Equium 7100D

- Intel Pentium II processor 400MHz
- 64MB high performance Synchronous DRAM
- 6.0 billion byte hard disk drive
- 32X max. speed CD-ROM
- Integrated 3Com Fast EtherLink XL 10/100
- Instant Access Door for improved upgradeability and serviceability
- Value Keyboard
- Windows 95 operating system
- Desktop chassis with 5 drive bays and 4 slots. Slimline chassis available with 3 drive bays and 2 slots

\$1,199*

7100D PV1045U-D34J0
7100S PV1045U-D34J0

Equium 7100S

- Intel Pentium II processor 350MHz
- 64MB high performance Synchronous DRAM
- 6.0 billion byte hard disk drive
- 32X max. speed CD-ROM
- Instant Access Door for improved upgradeability and serviceability
- Value Keyboard
- Windows 95 operating system
- Slimline chassis with 3 drive bays and 2 slots. Desktop chassis available with 5 drive bays and 4 slots

\$999*

7100S PV1045U-324J0
7100D PV1046U-324J0

TOSHIBA

Portables. Desktops. Servers.

After 132 years in the energy business, our reputation has become our name. Reliant.

Introducing Reliant Energy. The new identity for
Houston Industries and its subsidiaries.

It's only fitting that the energy services company people have counted on since 1866 takes on the next millennium under the name that best describes it. Reliant Energy is the result of our separate electric and gas entities becoming one strong, national and international energy services company with expertise across the energy spectrum. And

reaffirms our commitment to being the one you choose no matter what your energy needs.

Reliant Energy reflects our promise to continuously broaden our resources, services and capabilities to meet the needs of the future. Now, as a diversified energy services company, our business synergies give us a solid foundation from which to offer

existing and potential customers service that is truly world-class.

All this to say that Reliant Energy is the company with the reputation and heritage you can bank on.



SHAKEUP!

The new BMW boss's top job: Fix Rover

Billionaire Johanna Quandt, 72, abhors publicity. The matriarch of the German family that owns 46% of luxury auto maker BMW rarely appears from her fortified villa near Munich and socializes only in exclusive circles. Her two children, Susanne, 32, and Stefan, 32, are equally keen to stay out of the public eye. Fear of kidnapping and blackmail is a key reason. But the Quandts are finding it hard to avoid the limelight these days. The younger generation, both with business-school degrees, replaced their mother's supervisory board in May. They kept a low profile at first. On May 5, they held a special board meeting to discuss why British carmaker Rover Group Ltd., which BMW bought in 1998, is still hemorrhaging money. Eight months later, Chief Executive Bernd Pischetsrieder had resigned, and so had his apparent successor, Wolfgang Reitzle. A name unknown, Joachim Milberg, was reportedly named CEO. The Quandts' loss of patience after pouring capital into Rover for five years put BMW on notice. Milberg has just a few weeks to come up with a strategy for stemming losses at the be-

leaguered British company, which is estimated to have lost at least \$1 billion last year. By the time BMW reports its results on Mar. 30, Milberg and his team must decide what to do about Rover's aging midsize passenger-car models, which are still based on technology from former owner Honda Motor Co. The choices: Ditch the line, design a replacement, or cut costs by sharing Rover's platform technology with a partner.

That decision will be critical to BMW's future. Although the carmaker saw estimated profits of \$668 million in 1998 on sales of \$36.5 billion, Rover has been a drag on earnings from the beginning. And the younger Quandts may be less tolerant than their mother. If Milberg can't succeed where Pischetsrieder failed, they

could even put BMW on the block. They have already received offers, including one for a stake of 25% from Volkswagen last year, which they declined via a terse media statement.

The Quandts still insist they want to keep BMW independent. "BMW is not for sale," declares family spokesman Thomas Gaulty. Yet the ouster of Pischetsrieder signals that the young Quandts are closely scrutinizing the return on their investment. Stephen Reitman, auto analyst with Merrill Lynch & Co. in London, calculates that BMW could fetch at least \$28 billion. And BMW's stock has surged since the boardroom upheaval, as if investors believed the company were in play.

NO EASY OPTION. Saving BMW from a buyout would be a daunting task for any new CEO. Many wonder whether Milberg has a deadline for turning Rover around. And company policy dictates he will have to retire in four years, at age 60. Yet investors and insiders have given their vote of confidence. An unassuming former academic who has been with BMW only since 1993, Milberg was on the management board in charge of production, like Pischetsrieder before him. On his watch, productivity has risen 60%, and last year BMW's three German plants were ranked as Europe's top three for quality.

But as CEO, none of Milberg's options is risk-free. One

BEEMER AT A GLANCE

1998 SALES	\$36.5 billion
1998 PROFITS	\$668 million (est.)
UNIT SALES	BMW 699,378 Rover 487,737
GLOBAL REACH	130 countries
UNIT MODELS	Land Rover, Z3 coupe
GLOBAL RANK	No. 13 in production

DATA: BUSINESS WEEK



would be to shut the 93-year-old Longbridge plant near Birmingham, England, and discontinue the Rover 200 and Rover 400 midsize cars made there. John K. Lawson, analyst with Salomon Smith Barney in London, says such a move could add 15% to BMW group profits. But with 14,000 employees on the plant's payroll and 50,000 additional jobs depending on it, this would create a political uproar in Britain. BMW is said to be asking for \$330 million to \$500 million in aid from the British government to keep Longbridge open.

ANGRY HONDA. An alternative would be replacing the 400 with a new Rover. The trouble is, Rover's design capabilities were weakened during the four years Honda was in charge. Finally, BMW could find a partner and share the Rover platform in exchange for licensing fees and production capacity. Honda makes sense, but it is still too angry at BMW for buying from British Aerospace the 80% of Rover that Honda didn't own. Volkswagen could license its Golf platform, perhaps in exchange for the rights to the Rolls Royce name that BMW owns and that vw Chief Executive Officer Ferdinand Piëch craves.

A U.S. partner could step up, too. Ford Motor Co., for one, has ample auto-making capacity in Europe, and CEO Jacques Nasser is willing to make it available for platform-sharing with BMW. "We like partnerships on components and systems," he says. "So we would not be averse to that."

While the Quandts, Gauly says, are leaving the Rover issue to management, it's up to them whether BMW is put into play or not. If they ever change their minds, there are plenty of eager suitors. Besides Volkswagen, Ford is interested, and it still has a \$17.4 billion cash hoard after beating Fiat to acquire Volvo's car business. Says Ford CEO Nasser: "We never say never. But when a company the stature of BMW says it wants to be independent, you have to respect that."

The upheaval has certainly put two of Europe's best auto executives on the market. "If you don't win the whole company, go buy Pischetsrieder," advises Maryann N. Keller, analyst with ING Baring Furman Selz. But the world auto industry is deep in the grip of merger mania. The spotlight that was suddenly turned on Milberg during the boardroom marathon and the takeover buzz from industry watchers won't fade unless he delivers.

By Karen Lowery Miller in Frankfurt, with Keith Naughton in Detroit and Heidi Dawley in London

COMMENTARY

By Thane Peterson

GERMANY: TIME TO CRACK DOWN ON SECOND-RATE CEOs

The sudden ouster of BMW chief Bernd Pischetsrieder, along with his No. 2, Wolfgang Reitzle, sent a chill through German boardrooms. In the past, underperforming execs were shuffled into early retirement or had their duties diminished. Unceremoniously axing a top exec just wasn't done—till now. "In the old days, a CEO practically had to steal money from the company to lose his job," says Frank F. Beelitz, head of Lehman Brothers Inc.'s German unit. "Now, the life expectancy of an underperformer is getting shorter."

It's about time. Germany Inc.'s dirty little secret is that a lousy CEO is still more likely to be coddled than axed. That's partly a matter of culture. But it's also the result of interlocking corporate boards and shareholdings among big companies and the banks that finance them. De-regulation, shareholder activism, and tougher global competition are changing things, but not fast enough. More big companies need to take the lead in modernizing corporate governance. The government should help, too.

COZY RELATIONS. Germany pays a heavy price for its inbred system. The last notable ouster of a German CEO was at Dresdner Bank, where a year ago the supervisory board eased Jürgen Sarrazin out of the top job early and replaced him with bank veteran Bernhard Walter. But the sacking had more to do with infighting than good governance, and Dresdner isn't much healthier now than it was under Sarrazin. Mark Hoge, a Credit Suisse First Boston analyst in London, gripes that costs are soaring. One reason, he says, is that 21.4% of Dresdner's shares are held by giant insurer Allianz, insulating the bank from shareholder ire.

Another corporate brouhaha didn't turn out much better. Steelmaker

Hoesch-Krupp's 1997 bid for rival Thyssen was billed as Germany's first major unfriendly takeover. Would that it were so. Top Deutsche Bank executives sat on the boards of both warring parties. Rather than let the best CEO win, the bank and local politician imposed a power-sharing arrangement. That makes bold action difficult at a time when European steelmakers are under pressure from Asian rivals with devalued currencies.



AXED: Pischetsrieder and No. 2 Reitzle

New initiatives are needed to break up the cozy relationships among German companies and banks. A good start would be for the government to come up with a one-time tax deal allowing financial institutions to sell off investment stakes in German companies. As it is, capital-gains taxes topping 50% make it unprofitable to sell.

Companies need to do more, too. Corporate boards in Germany are large and unwieldy, and they rarely include international outsiders. Seats should be pared to a dozen or fewer and non-Germans brought in. Supervisory boards should also be more responsible. One step: creating shareholders' committees that represent investor interests. For now, the axing of Pischetsrieder at BMW is an anomaly in German corporate governance. Germany Inc. should make sure it doesn't remain one for long.

Frankfurt Bureau Chief Peter Seck covers German business and finance



**Both men are traveling 2,000 miles to a meeting.
Who would you rather be?**



Tired of scurrying through airports? Bleary-eyed meetings? Missing your family? On-net MCI WorldComSM has the answer. Global conferencing. We can provide everything you need for your meeting — audio, video, Net conferencing or a combination of all three. We'll even provide the latest video equipment. No matter how extensive your needs, we can handle it. And if there's ever a concern, we have people ready to assist you. We're changing the way the world meets. So you can get where you have to go, without ever really having to...go. Bon Voyage. Introducing MCI WorldCom On-Net. For details, visit mnc.mci.com or call 1-800-475-3555.

ON-NET

AUDIOCONFERENCING

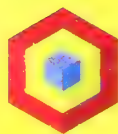
VIDEOCONFERENCING

NET CONFERENCING

EQUIPMENT

INK /tuh/mē

Our caching software is designed to reduce redundant data on the Internet.
In regards to our name, however, repetition is encouraged.



inktomī[®]

S c a l i n g t h e I n t e r n e t [™]

www.inktom.com

THE INVESTOR REVOLUTION



IN THE PRE-WORLD WIDE WEB DAYS, if you wanted to invest for your retirement, you'd call your broker and ask what looks good. He would sell you a financial plan and 100 shares of GE or maybe a mutual fund he was pushing. But you paid a stiff price: a couple hundred bucks commission for the stock or a 5% sales charge for the fund. Plus an extra percentage point or two every year to help pay for the fund manager's hefty salary.

Today, the Internet is giving investors access to a wealth of free information and pushing commissions under \$10 a trade. Meanwhile, index funds, which put investment decisions on autopilot, are beating active money managers by a mile. Since the bulls began running on Wall Street in 1982, the average equity mutual fund has outperformed funds pegged to the Standard & Poor's 500-stock index by nearly 3 percentage points a year.

By moving to the Web and indexing their portfolios, investors are taking control of their finances. In this Cover Story, we describe the ruckus on Wall Street (page 112), where the Internet is both a boon and a threat. With some 14% of all stock trades now online, it's little wonder that Charles Schwab, E*Trade Group, and their digital ilk are riding high as old-line brokers rush out new online products and services. We'll also help you navigate the Web sites of the E-brokers and their old-line competitors (page 120). And we explain why low-cost index funds are the hottest item on the mutual-fund menu today (page 126) and how to use them to build a diversified portfolio. You now have choices you never had before.

By William Glasgall in New York

WHO NEEDS A BROKER?

The sudden rise of online investors

Page 112

E*TRADE

A pioneer's saga

Page 116

INVESTOR'S GUIDE

How the broker Web sites stack up

Page 120

WHO NEEDS A MONEY MANAGER?

Index funds change how people invest

Page 126

THE GREAT DEBATE

Brains vs. autopilot

Page 132

ALLOCATING YOUR ASSETS

Deciding what to put where is crucial

Page 134

[illegible]

rash new
online
firms are
turning the
additional
world of
Wall Street
on its ear

THREE YEARS AGO, IT WAS AN ALMOST INVISIBLE BLIP. TWO years later, it was hard to miss. But the major brokerage firms continued to ignore the exploding phenomenon of online trading.

Today, online trading has caught Wall Street's attention with a vengeance. Fueled by the bull market, Internet brokers have attracted a deluge of new customers. Online brokers' stocks have soared, with Ameritrade Inc. up 118% since Jan. 4. Some 14% of all equity trades were executed online last year, up 50% since 1997. The online brokerage industry has doubled customer assets, to \$420 billion, and doubled accounts, to 7.3 million, reports Piper Jaffray Inc.

Now, the Internet brokers and the full-service firms are headed toward a face-off that could lead to nothing short of war. The Net poses the most serious threat to the established industry's economics and primacy since the unfixing of commissions on May Day, 1975, when deregulation created the discount-brokerage business, threatening, but not vanquishing, a cozy oligopoly. Now, the oligopoly is being battered by new technologies. "The Internet is fundamentally changing the story of investing," says Gideon Sasson, head of Charles Schwab & Co.'s electronic brokerage unit.

Cover Story

THE INVESTOR REVOLUTION

WHO NEEDS A BROKER?

The online firms' biggest advantage: radical cost savings. Online commissions have plummeted—down 50% in 1997 alone—as competition has mounted. Now buying 200 shares of a \$20 stock costs \$8 at Ameritrade, \$14.95 at E*Trade, \$29.95 at Schwab, and \$116 at a full-service firm. Yet the full-service firms have so far stuck to their full commissions, and don't even offer online trading yet. "When Southwest cuts fares, airline execs don't say they're unsure about what's causing the increase in volume," says Bill Burnham, Credit Suisse First Boston Corp.'s online analyst. "We've opened the world's biggest back door into the market. We're seeing a permanently higher level of activity."

The dean of do-it-yourself investing, Charles Schwab himself, says the big Wall Street firms are hopelessly behind the times. "It's a lot like the guy with the buggy whip. Four wheels? What's this thing called an automobile?" mocks Schwab. He says the Internet poses a basic challenge to Wall Street's consumer-unfriendly way of doing business: "I don't think they've ever embraced anything that has empowered the individual investor."

"HOG HEAVEN." Cheap prices are only part of the Internet's influence. An avalanche of mostly free financial information is readily available to investors. True, this information ranges from Securities & Exchange Commission filings to the murky world of chat rooms. But investors are entranced with online investing. Martin Fox, a 63-year-old small-business CEO who trades online through National Discount Broker, says: "Having immediate access to unfiltered information is great. I woke up in hog heaven." Adds Cambridge Group partner Navtej S. Nandra: "The balance of power has shifted to the investor."

The rise of this cheaper, self-directed, fee-based, performance-oriented model of investing sure looks like bad news for traditional Wall Street, which relies on a commission-based, proprietary, paternalistic model of in-



“I like working with A.G. Edwards... I don't have time to look into all the different options.”

PATRICIA A'GHAVAN
New York City

vesting. The commission system produces a high cost structure for the industry with results that are not necessarily good for the investor. Change is difficult because the firms earn billions from brokers, who in turn are very powerful within their firms. And full-service firms don't always live up to their names. Some 40% of brokers are inexperienced and under-trained, according to Cambridge Group.

But the full-service firms are finally beginning to counterattack. Their first steps will be to add online trading to their information-only Web sites this

Street firms, including PaineWebber Inc., are planning to provide customers with account performance data and performance benchmarks, novelties in the full-service world. “We are going to have to be more service-oriented,” says Merrill Lynch Vice-Chairman Launny Steffens. “It raises the bar for the financial consultant. We're going to add more value.”

Meanwhile, online firms, despite their rapid growth, are far from invincible. They are facing greater scrutiny as more of their customers suffer serious service problems and discover they can lose big money day trading. John Tyler, a real estate agent in North Attleboro, Mass., who tried to play Internet through Schwab, says he lost \$25,000 due to an error Schwab made in his account and from being put on hold for 20 minutes in a fast-moving market. “I'd rather pay a guy \$100 a trade than pay Schwab \$25,000,” says Tyler. A Schwab spokeswoman says Tyler was trying to buy a large block of an illiquid stock and that Schwab did “everything appropriate.”

Finally, the current online frenzy is narrowly dependent on “Internet users at Internet trading firms buying Internet stocks,” says CSFB's Burnham. The real test of these firms will come when the market plunges.

This battle for the hearts and minds of American investors is just starting. Whoever prevails, it is consumers who come out the biggest winners. The fighting will foster a plethora of new products, services, and pricing options as firms compete for market share. And it will force both sides to continually justify their value to their customers.

The growth of the online firms has been nothing short of

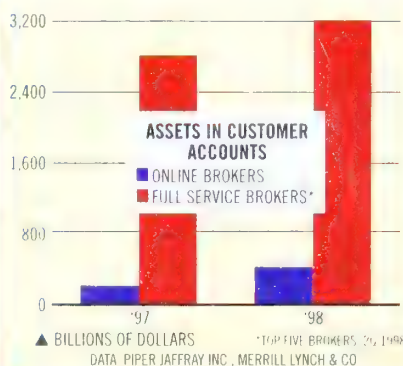
Cover Story

THE INVESTOR REVOLUTION

year, with a better deal for their more active customers. They can be expected to mobilize their enormous advantages: They have the most affluent customers, the best research analysts, a lock on the market for initial public offerings, vastly heftier capital bases, Internet technology expertise, and powerful global brand names. Morgan Stanley Dean Witter has the big advantage of owning online broker Discover Brokerage Direct. Says Philip J. Purcell, MSDW's chief executive officer: “I'll match our technology and our customer service with any of them. We're ready. We'll go compete with them.”

Online investing will ultimately push full-service firms to respond with bigger changes. The major brokers over time will have to wean themselves and their brokers away from hefty commissions, change the way they price their wares, and improve the performance of their brokers. Several big Wall

**MAINLINE
BROKERS
STILL
CONTROL
MOST
BROKERAGE
ASSETS...**



**...BUT ONLINE
TRADING'S
SHARE IS
GROWING...**



omenal. In just three years, they have gone from "an
nificant technological curiosity" says James Marks, on-
analyst at Deutsche Bank, to a band of more than a
red online brokers. Online investing has become so
lar that it is topped only by online pornography. "Sex is
er one and financial services is number two," says
ab's Sasson. Also driving growth is a generation of
mpromising, control-oriented adults who are nearing
ement. "If the Internet didn't exist, the baby boomers
d have to invent it," says Daniel O. Leemon, Schwab's
strategist.

e online industry is still tiny on the basis of transac-

of products and services and customers. They had a great
chance to be a great leveler. We had no help except from the
customer. Now we've spawned an entire industry."

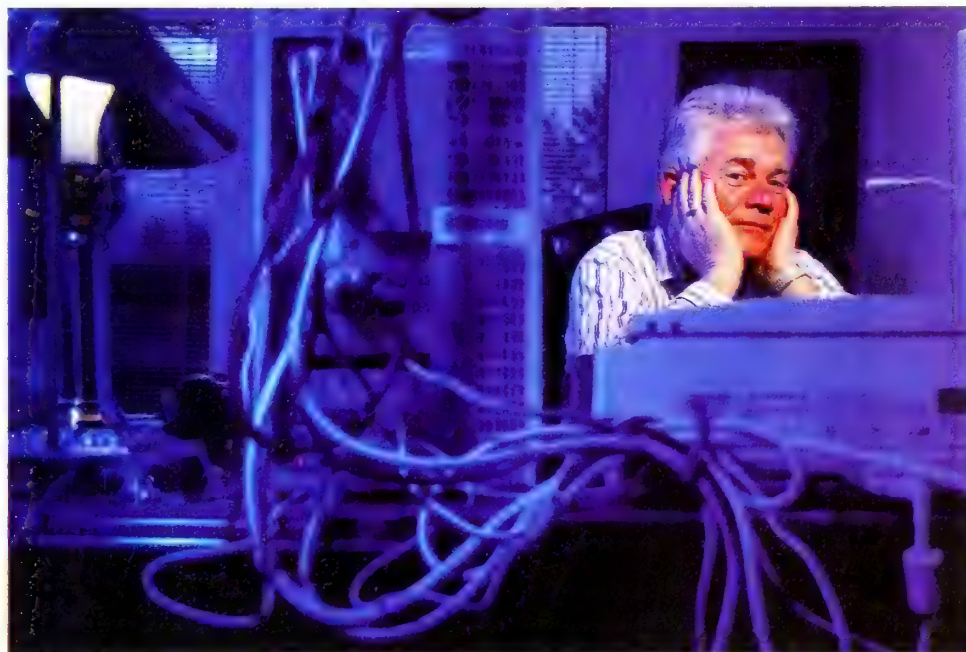
Online brokers, such as Fidelity Investments, got their
start from shifting their do-it-yourself customers from trad-
ing on the phone to trading on the Internet. Schwab, the
largest online broker, with 27% of the online market, re-
sponded to cheaper online brokers by lowering its commis-
sions to \$29.95 for all online trades, compared to an average
of \$55 for phone trades.

A key question: How much of the boom in online customers
is coming from full-service firms? Many of these customers

**6 I'd rather
by a guy \$100
trade than
by Schwab
\$5,000. 99**

— JOHN TYLER,

Massachusetts real estate
agent who says he lost \$25,000
due to problems at Schwab



accounts, or assets. Its \$420 billion of assets in cus-
omer accounts is dwarfed by Merrill Lynch & Co.'s \$1.4 tril-
lion. But Deutsche Bank's Marks expects online accounts to
grow to 14 million by the end of 2000.

BE AND LOSE. Wall Street isn't the first industry to believe
it could control the uncontrollable forces unleashed by the In-
ternet. Microsoft Corp. ignored the Net for years because it un-
derestimated its all-important Windows software, and Barnes &
Noble Inc. was loathe to address the threat posed by Ama-
zon. Full-service brokers "have the mistaken impression
that they are in the driver's seat," says CSFB's Burnham.

Their delay let the likes of Ameritrade and E*Trade Group
emerge and establish themselves and create valuable franchises. "We should
have been squashed from Day One," says E*Trade Chief Exe-
cutive Christos M. Cotsakos. "They had the depth and breadth

are new to the market, so it's unclear how many are defecting
from big firms. In general, customers of full-service firms are
older and far more affluent than online customers. For example,
E*Trade's average customer is 39 years old and has \$25,000 in
his or her account, while the average Merrill Lynch customer is
52 years old and the average household has \$200,000 in assets.
This is why full-service firms say they aren't interested in
grabbing the less-lucrative market segment.

SUBTLE MUTINY. But there is ample reason for concern. Many
full-service customers are also opening accounts at online firms.
PaineWebber surveyed its customers over a year ago and
found that 8% had already opened online accounts. Some 30%
said they planned to in the next year. Says Marc J. Defant, a
geology professor in Tampa who has about \$300,000 with
E*Trade: "I came close to signing with Merrill Lynch. At the
end of the day, I chose not to because it was very expensive."

Online brokers are also expected to move up the food chain
in the next year or so. Led by Schwab, they will attempt to
lure full-service customers by offering them far more than
just cheap trades. "Internet trading will turn out to be a foot-
note in the history of Internet investing," says Schwab's
Leemon.

This explains why online brokers are now racing to provide
research and initial public offerings. Wit Capital Corp., an In-
ternet investment bank, just hired a Merrill Lynch analyst to
start its research department. Retail access to IPOs has been a
powerful lure. Online brokers are scrambling to get their
hands on this hot commodity for their online customers. Schwab
has agreements to offer H&Q's, CSFB's, and J.P. Morgan's IPOs. So
far, online investors can't expect to get into many hot deals.
"The amount of IPOs going through the Internet today is de-

**ONLINE
COMMISSIONS
DEVELOPING**

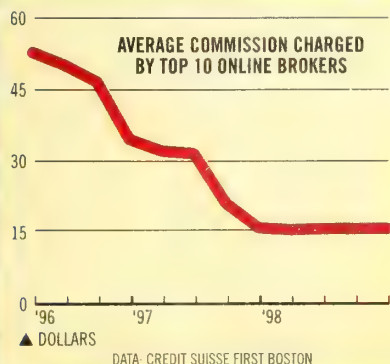




Photo: James J. Hardwick, president of Prudential Individual Securities unit.

The other way that advice brokers are competing is with new tools for asset allocation, stock selection, and financial planning. These tools are designed to replicate the more sophisticated ones that brokers have and the brokers themselves. For example, Schwab just rolled out its Signature Service account that ditches the firm's traditional hands-off, do-it-yourself model.

Cover Story

THE INVESTOR REVOLUTION

Customers with more than \$100,000 can get advice through a team of brokers who are paid on salary rather than commissions. "Advice is the big question they face, and that's one thing we've got," says Hardwick.

Full-service firms justify charging hefty commissions because their customers are getting a living, breathing, advice-giving broker rather than just pressing a button on a computer and executing a trade. Many customers, especially older, wealthier ones with more complex finances, want guidance on everything from stock-picking to estate planning. "Information is not advice," says Norman Epstein, chief financial officer at ILX Systems, a data provider. "I like my broker to tell me, 'That's a dumb idea.'" Adds saleswoman Patricia H. Aughavin: "I like working with A.G. Edwards, frankly, for the advice and products they offer because I don't have time to look into all the different options."

The main interest of the

be hanging on to their own wealthy customers. And they are finding that their customers have had their appetites whetted by their

"I came close to signing with Merrill Lynch...I chose not to because it was very expensive."

MARK HEMAWAY
Tampa, Florida

Web sites, which let them see their account information in far more detail than possible before. At Morgan Stanley Dean Witter, 60,000 customers that Clientserv have four times the assets and five times the revenue of the average account. "We were floored. We've been consistently our clients," says Ray D. marketing director MSDW's Individual Securities unit.

Nevertheless, the full-service firms are proceeding very cautiously in offering online trading. They are moving toward charging fees like a money manager to trade online. This is an across-the-board price, but frequent traders should be able to execute trades at online prices.

FREQUENT-FLIER MILES.

For example, Morgan Stanley Dean Witter, which has 4 million customer accounts and about 600,000 core central asset management accounts, is rolling out online trading to just 20,000 customers who have a Choice account. Customers with \$50,000 to \$250,000 in their accounts are charged a flat fee of 2.25% a year on their assets, and get 56 trades. (That fee drops to 1.5% for assets over \$10 million.) They can enter trades online through their broker. But they must use their broker to trade options, stocks on margin, or short a stock. The idea is for the broker to protect them from doing something foolish.

Prudential Securities is going a little further. It is testing a program that allows clients with more than \$100,000 with the firm to trade online. They are charged a flat 1% fee a year. In addition, they pay \$24.95 per online trade or broker-assisted trade. The broker shares in the 1% fee, but not in the \$24.95 charge. Prudential's Simmons says: "Essentially, we've separated the financial advisers' advisory role from the execution role of the firm itself. I think you're going to see many more pricing alternatives along these lines."

Wall Street is closely watching Merrill Lynch because of its reputation as a retail marketing powerhouse. Merrill

"People need advice and guidance. Some of that market will be in place forever."

L.V.I.



Do it for your business.

Do it for the warm glow.

Okay, do it for the \$150.



Get up to **\$150 off** a new HP All-in-One when you donate your used printer, fax, scanner or copier to Goodwill or the charity of your choice. Now, in one product, you get a professional quality printer, scanner, copier, and in some models a fax machine, too. One simple gesture gives you great looking communications, a warm glow, and money back. See store for details or visit www.hp.com/go/ojdonate.

OfficeJet Pro 1175C
• Copy • Scan • PC Fax
All-in-One

Believe in the power of work.



said for the past two years that it will offer online trading. In early February, Merrill's Steffens said the service would be available by March. Steffens is also trying to build customer loyalty by rolling out a high-end client reward program on its credit card. And he has been busy negotiating deals with re-

tailers so that Merrill customers can get discounts and frequent-flier miles on every-

thing from flowers to gourmet foods purchased on Merrill Lynch Online, which reaches 400,000 households with \$300 billion in assets. "The ability to take this credit card and use it as a payments system on the Internet is clearly what we're attempting to do," says Steffens.

Cover Story

THE INVESTOR REVOLUTION

The main reason the full-service firms have been reluctant to tamper with their business model is because it remains successful. Morgan Stanley Dean Witter says it opened 950,000 new customer accounts in 1998, up 35% from the prior year. And Merrill Lynch pulls in \$327 million in new assets every day. "People need advice and guidance. Something that market will be in place forever," says Steffens.

But the online world has tremendous momentum. Consider Tyler, the first-time investor who signed on with Schwab six months ago. Even though he lost a battle trading with Schwab, guess what? He's still a customer there. As they say on Wall Street, you can't fight tape.

By Leah Nathans Spiro, with Edward C. [unclear]
in New York

WILL E*TRADE MOVE BEYOND E*TRAGEDY?

Visit E*Trade Group Inc.'s headquarters in Palo Alto, Calif., and it feels more like a frenetic startup than an established brokerage. The average age of "associates," as employees are called, looks to be 25. On the walls are E*Trade's ads, with headlines that scream: "50 Reasons To Leave Your Broker."

Over the past three years, E*Trade has built one of the most successful brands in financial services—by zinging Wall Street. Just talk to CEO Christos M. Cotsakos, a former executive at A. C. Nielsen Inc., and get ready for an earful: "[Full service firms] have been absolutely irresponsible. They have made so much money in this market, yet they haven't delivered easy, value-added solutions to customers," he says. "For us, this is a jihad."

CLASS ACTION. But Cotsakos might want to spend less time slamming competitors and more time addressing E*Trade's own problems. During the week of Feb. 8, E*Trade's systems were down for three consecutive days due to computer failures. The problems even spawned a Silicon Investor Web site dedicated largely to "E*Tragedy's" problems. E*Trade also acknowledged that on Feb. 9, it was hit with a class action in Santa Clara County. E*Trade spokeswoman Lisa Nash says the problems were caused by an effort to upgrade systems and only 2% to 5% of customers were affected. From Feb. 2 to Feb. 10, E*Trade's stock fell 35%. E*Trade's main problem is it is growing too fast.

E*Trade, with 800 employees and only one retail office, is the third-largest online broker. It didn't offer



LEVINSON AND COTSAKOS: Building a name in financial services—by zinging Wall Street.

Internet trading until February, 1996. It was the first Net company to make money, but it lost \$200,000 in 1998 and a further \$13.2 million in the first quarter of fiscal 1999. Revenues in 1998, nevertheless, were \$245 million, excluding interest income. But investors are looking past today's losses and focusing on E*Trade's phenomenal growth. In 1998, E*Trade's accounts doubled from the prior year, to 676,000. Its stock has shot up 72% since yearend 1998.

Despite constant promotion of itself as a technology company, it actually spends three times as much on marketing as on technology. In addition to its low fees, E*Trade's growth is based on big marketing spending—\$150 million in 1999—and nonstop hype. It is staking out new U.S. markets, such as equity underwriting, and plans to license its name in 36 countries for upfront and operating fees.

Cotsakos' crusade is to make a fundamental change in investing—by replicating full-service firms' spectrum

of services electronically but without using human brokers or building branches. E*Trade is trying to move away from just selling discount trading. Instead, it aims to offer a variety of financial services, from bond to mortgages. "Our model is based on bringing the power of the Internet to the consumer," says Kathy Levinson, E*Trade president.

E*Trade doesn't even like to be categorized as a brokerage. It sees itself as a pipeline that can deliver all sorts of products to consumers, from books and CDs, which it already sells on its Web site. "Brokerage is just content," says Levinson.

Nevertheless, most online analysts are recommending E*Trade—with a few caveats. The firm intends to spend heavily on marketing to grab new accounts so will lose money for three quarters. But E*Trade's finances are fairly flush. Japan's Softbank Corp. paid E*Trade \$400 million for a 27% stake. The cash may be invested in small Internet-related startups. James Marks, an analyst at Deutsche Bank Securities Inc. in New York, describes E*Trade as a "\$400 million blind pool with operating brokerage attached."

What's next? Cotsakos is eyeing banking and insurance. And he wants to link E*Trade's international franchises into a global, 24-hour, cross-currency customer trading system. These ventures haven't diverted him from castigating the big brokers whenever he can: "Are we are going to put 'em out of business? No. But we are going to change their business model."

By Leah Nathans Spiro
in Palo Alto, Cal.



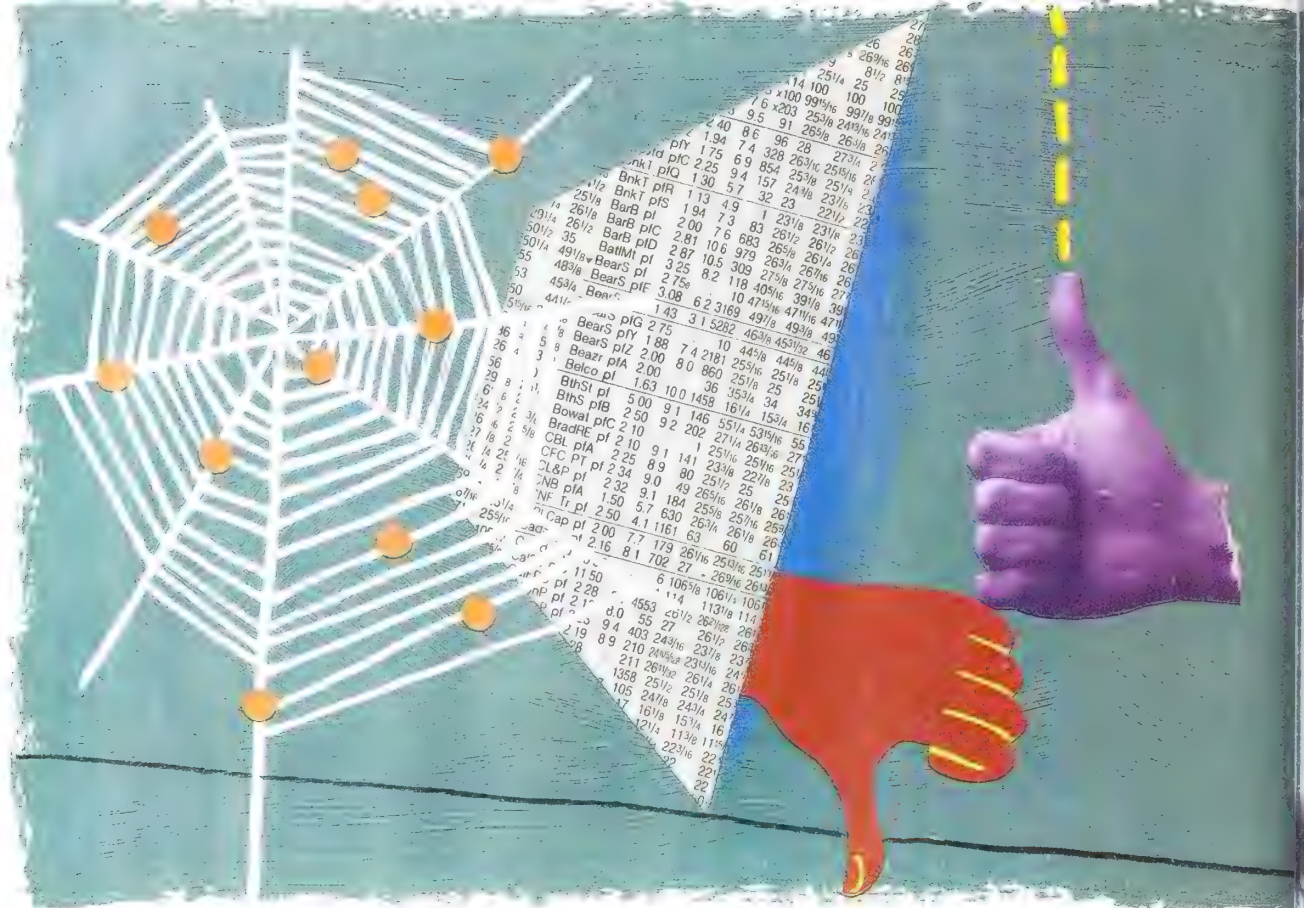
2% of companies **AREN'T PREPARED**
to handle a computer system disaster.*

[Care to know if you're one of them?]

Computer system disasters cost companies millions. Indeed, it can lead to the company's destruction. What, you may ask, can assure your company's survival? Only an airtight, proven data backup plan. An essential ingredient of which is DLTtape™ technology, the industry standard in reliable tape backup systems. And DLTtape system vendors, working in conjunction with a number of disaster recovery experts, can provide you with the information, tools and expertise you need to survive a catastrophe. To find out how secure your company is, visit us at www.DLTtape.com/ProveIt! or call 1-888-DLTtape.



*Comdisco 1997 Vulnerability Index®



INVESTOR'S GUIDE

WALL STREET IS WALL STREET, and the Web is the Web, and someday the twain shall meet. But so far, they haven't.

True, full-service stockbrokers and their online competitors are converging. Wall Street's retail powerhouses are ramping up new electronic offerings. But out on the Web, the two camps are still living in different worlds. Visit even the most advanced of the traditional brokers' Web sites, and you'll come away thinking that investing is still a dark art best practiced under the tutelage of trained professionals. None yet offer online trading.

Cover Story

THE INVESTOR REVOLUTION

Over at the online brokers' sites, however, the democratization of investing is in full swing. Self-reliant stock-pickers are expected to amass their own portfolios with scornful disregard for the recommended lists and canned advice of the big firms.

Each approach has its weaknesses. Take retirement planning. Morgan Stanley Dean Witter's online toolbox (www.deanwitter.com) contains a few basic calculators, each of which leads to a sales pitch—"To receive a free, more

How do the upstart Net brokers stack up against traditional firms online?

complete analysis..."—and links to a broker-locating page. It sheds light on your retirement needs, pales beside the nifty calculators, individual retirement accounts, Roth IRAs offered by online broker E*Trade Group Inc. (www.etrade.com). But at E*Trade, you have to look at a different page just to figure out whether you're eligible for an IRA—a question your Morgan Stanley broker would settle immediately.

Which is for you? That depends on your confidence in your commitment to planning and managing your own investments. If you're willing to assess your own needs and pick your own investments—or pay a neutral adviser, like a fee-based financial planner—online brokers offer lower fees and better use of the Internet's information-packaging features and a wealth of information. But if you think stocks are too risky, or if you prefer to depend on a traditional broker's army of analysts, you may do better paying the tab for comfort.

We looked at the Web offerings of three online and 12 traditional brokers (table, page 124). Our sample is a small chunk of the market—there are more than 100 online brokers alone—sliced out of the middle ground where bricks-and-mortar firms are starting to collide with their cyber rivals. The Internet, naturally, offers a wealth of resources for picking



Comfort at work.

When you're comfortable, taking care of business seems less like work. Our First, Business and Economy Class now feature redesigned seats with greater recline and adjustable headrests, along with more space to stretch your legs. So you can lean back and relax. Or, if you prefer, you have the atmosphere you need to get work done. It's all part of our new intercontinental service and another example of our efforts to offer you a more comfortable journey.

www.lufthansa-usa.com



Lufthansa



STAR ALLIANCE

The airline network for Earth

Fly on Lufthansa or our global partner United Airlines and you can accrue or redeem miles in either Lufthansa Miles & More[®] or United Mileage Plus[®]; in accordance with the terms and conditions of the programs. New seats being phased in through Spring 1999.



LIFE IS SO MUCH EASIER WHEN YOU HAVE THE RIGHT SUPPORT

A CDW account manager, your Direct Solutions Provider, can make life a whole lot easier. Because he's an expert, assigned to you personally and always there to help. Drawing from the top names in every computing category, like Compaq, IBM, Toshiba, Hewlett-Packard, Cisco and Microsoft, he'll build a computing solution just right for you. He'll ship it the same day and give you lifetime support too, making

CDW your one-stop resource for everything you need. No wonder we're the number one direct source for industry leaders including Compaq, Microsoft, IBM and many others. So call us today at 888-239-7278 or visit us at www.cdw.com. And see how much a billion dollar, FORTUNE® 1000 company can help you. CDW. Solutions that make your job easier. And that puts you in the best seat in the house.



Computing Solutions Built for Business™

888-239-7278 www.cdw.com

AND SO MUCH HARDER WHEN YOU DON'T.



ONLINE VS. OLD-LINE

FIRM/WEB ADDRESS

Charles Schwab
www.schwab.com

E*Trade
www.etrade.com

DLJdirect
www.dljdirect.com

Morgan Stanley
Dean Witter
www.deanwitter.com

PaineWebber
www.painewebberedge.com

Merrill Lynch
www.plan.ml.com

Here are how the Web offerings of three online brokers compare with those of three full-service brokers that do not have online trading:

	COSTS	RESEARCH	REAL-TIME QUOTES	EMERGENCY BACKUP	MUTUAL FUNDS	NEAT FEATURES
Charles Schwab	\$29.95 per trade up to 1,000 shares, 3¢ per additional share	Hambrecht & Quist, Credit Suisse First Boston	100 per trade	800 number, 300 U.S. offices	Screen 1,500 funds, Morningstar data	Nearly every investment term on Schwab's pages is hyperlinked to a glossary
E*Trade	\$14.95 per market-order trade, up to 5,000 shares; 1¢ per additional share; Add \$5 for limit orders or over-the-counter stocks	BancBoston/Robertson Stephens	Unlimited	800 number (extra fee, may be waived in system failure)	Screen 4,300 funds, Morningstar data	Excellent charting for multiple stocks
DLJdirect	\$20 per trade up to 1,000 shares; 2¢ per additional share	Zacks Investment Research	100 per trade	800 number	Screen 6,500 funds, Lipper data	Offers chance to set up and track up to 20 model portfolios.
Morgan Stanley Dean Witter	Asset-management fee: \$40 per trade for \$100,000 account, 56 trades per year	Proprietary; 248 analysts	Unlimited	438 U.S. offices	No online screening	CNBC video clips available online
PaineWebber	Asset-management fee: \$43 per trade for \$100,000 account, 52 trades per year	Proprietary; 92 analysts	None	303 U.S. offices	No online screening	Arrange to have up to 400 quotes E-mailed to you throughout the day
Merrill Lynch	Asset-management fee: \$56 per trade for \$100,000 account, 27 trades per year	Proprietary; 667 analysts	None	672 U.S. offices	No online screening	"Bullhorn" E-mails you when watch-list stocks hit target price

DATA BUSINESS WEEK

online brokers. Try TheStreet.com [www.thestreet.com] and the scoreboards at Gomez Advisors Inc. [www.gomez.com] or CyberInvest [www.cyberinvest.com].) Here's how traditional and online sites stack up against each other:

PRICE. Online brokers are cheaper. But even in the online world, you get what you pay for. The \$29.95 you pay for a trade at Charles Schwab (www.schwab.com) brings more research and better tools than does the \$20 at DLJdirect Inc. (www.dljdirect.com).

To counter online traders' prices without undercutting

their own fee schedules, full-service firms such as MSDW and PaineWebber Inc.

(www.painewebberedge.com) plan to switch online customers to asset-management fees—a percentage charge based on account size that covers a preset number of trades per year. (The smaller your account or the more you trade, the higher the percentage.) For a \$100,000 account with up to 52 trades a year, PaineWebber will charge \$2,250. That's \$43.27 or more a trade—but a PaineWebber spokesman points out that the fee covers "customer profiling, planning, asset allocation, and research" as well as trade execution.

RELIABILITY. We didn't test the brokers' order execution—but the news hasn't been good for online firms. Three straight days of breakdowns at E*Trade in early February woke up investors to the online industry's struggle to keep up with skyrocketing demand. Indeed, access and execution top the list of complaints against online firms filed with the Securities & Exchange Commission; while the number of online accounts doubled in 1998, gripes about online brokers soared by 330%. Beefs about traditional brokers fell 15%.

You can check out firms' reliability at the Web sites

above (but check the rating date—E*Trade won Gomp top honors just before its breakdown). If you choose to online, sign up with two firms so you'll have a route to the market if one crashes. Online firms may offer telephone-order backup, but they're not staffed for a rush—unlike the full-service firms, where legions of brokers await your call.

RESEARCH. The full-service firms' teams of analysts bring investors specific stock recommendations. But the online brokers have discovered they can offer much of the same wisdom at a fraction of the cost by buying research wholesale. Charles Schwab goes one better by offering two sets of opinions from Hambrecht & Quist and Credit Suisse First Boston. Schwab also reports analysts' upgrades and downgrades from all firms. But none of the online firms offer their own buy/sell recommendations, in contrast to the full-service firms and their model portfolios.

MUTUAL-FUND SCREENING. The Internet's tools for sorting and ranking information excel at a task like picking the best mutual fund. Online broker DLJdirect screens more than 6,500 funds based on a user's criteria for performance, fees, and investment style; E*Trade handles some 4,300 funds. All the online brokers flag the funds available to their clients with a fee, but they also show other funds that meet the client's criteria. Full-service brokers don't think fund-picking is for amateurs: "That's available on our brokers' screens," says a MSDW spokeswoman.

That atmosphere of broker-knows-best is likely to haunt the full-service Web sites for a while. The big houses can't cast aside their workforce and plunge into the price-driven competition of the online world. But their foray on the Web should keep some of their existing customers from straying—and may attract others who find the high holding they offer well worth the premium prices they charge.

By Mike McNamee in Washington

Cover Story

THE INVESTOR REVOLUTION

WE'VE SPENT 15 YEARS OBSESSING ABOUT COLOR PRINTERS AND ALL WE THINK ABOUT IS HOW TO GET LOADED.



LOADS FAST, PRINTS EVEN FASTER.



Take it from us, we know what should go into a printer. Our ColorStix® ink is a good example. Since each color has a unique shape, loading the Tektronix Phaser® 840 printer is as easy as loading a stapler. And just as quick. In fact, everything's quick. Print speed is twice as fast as a typical color laser. So easy in, easy out could be this printer's motto. But that's exactly the kind of thinking we put into all our printers. So you can think about more important things. Like how to celebrate seeing color at work. Take a load off your mind by calling 1-877-362-6567 ext. 1578. The call is free and so is all the black ink you will ever need. You can learn more at www.coloratwork.com

index funds
are cheap,
easy—and
they're
changing
the way
Americans
invest

FOR DR. MARK WITTMAN, PICKING STOCKS IS LIKE GOING TO Las Vegas—fun, but not something to which you want to commit a lot of money. The 42-year-old Los Angeles anesthesiologist and entrepreneur prefers to keep about 65% of his investments in index funds, those boring-but-sensible mutual funds that robotically track a market index such as the Standard & Poor's 500. "I'm personally comfortable with matching the market return. I don't have to beat it, but I sure don't want to fall behind it," he says. In fact, the index funds usually do so much better than his own carefully chosen stocks that Wittman sometimes wonders why he doesn't go 100% into indexing. "Old habits die hard," he admits.

Yet die they do, as evidenced by this simple fact: Indexing is changing the way Americans invest. It's cheap, it's easy, and it makes sense to investors who care about long-term gains, not playing the latest hot tip. A citizenry that demands discounts on everything from cars to computers is increasingly dissatisfied with paying stockbrokers and mutual-fund managers to pick stocks and bonds—especially when their choices often don't work out.

This has become increasingly true during the 16½-year bull market, when simply investing in a fund that mimics the S&P 500-stock index,

Cover Story

THE INVESTOR REVOLUTION

WHO NEEDS A MONEY MANAGER?

composed largely of big, blue-chip companies, has beaten buying managed funds hands down. If you had put \$10,000 into an S&P 500 fund in August, 1982, you'd have had \$193,550 by the end of January, vs. \$114,300 if you'd turned your money over to the average managed equity fund (chart, page 128). Actively managed large-cap funds did better but still fell short of the S&P 500 with a return of \$157,346.

Even as the S&P 500 rose 28.6% in 1998, one-fifth of all U.S. equity funds lost money, and only 17% of fund managers beat the big index. Fewer than 5% did so over the past five years. The major reason is that managers' fees are as much as seven times what most big index funds charge to invest your money. So it's no wonder that investor dollars are increasingly bypassing actively managed funds, even as the fund industry rolls out new ones at the furious pace of one per day.

Last year, index funds attracted some \$42 billion, or 19% of the money committed to mutual funds, according to Financial Research Corp. That number has nearly doubled since 1996—a remarkable feat considering how few dollars are spent advertising the no-frills products. The most obvious sign of indexing's ascendance is the explosive growth of the Vanguard Group's \$79 billion 500 Index fund, which is expected to soon overtake Fidelity Investment's \$83 billion Magellan as the world's largest mutual fund.

Academics have long talked up the advantages of broad index funds. So have managers of U.S. pension plans, which have \$1.15 trillion—or 25% of their assets—in indexed investments. But it wasn't until the stock market's



“I’m personally comfortable with matching the market return. I don’t have to beat it, but I sure don’t want to fall behind it”

— DR. MARK WITTMAN
Los Angeles, California

spectacular runup of the past four years that individuals began to catch on. Now, investors are looking beyond the S&P 500 to index funds that track everything from energy stocks to the 100 largest issues in the tech-heavy NASDAQ Index. Last year, about 40¢ of every index-fund dollar went into such S&P 500 alternatives, up from 26¢ in 1990.

You say you want to invest in the entire stock market instead of a single sector? No problem. Increasingly popular are

funds pegged to the Wilshire 5000 index, which captures virtually the entire field of U.S.

proportions matching their representation in index

So why should you settle for simply matching the market? Because it may be the best you can do long term, say academics and others who believe markets are so sophisticated that stock prices instantly reflect new information. The record strongly supports their view. In this supercompetitive environment, the only investors with a sure advantage are those trading on illegal information. With the odds of being right 50% in every transaction, picking stocks that beat the benchmark is no different from correctly calling a coin toss.

BIG BANDWAGON. Indeed, whether they like the trend or not, Morgan Stanley Dean Witter, Merrill Lynch, Fidelity, and others have added index funds to their product lines. Online brokerages, which depend on investors who make their own decisions, are also jumping on the bandwagon. In early February, E*Trade launched an S&P 500 fund to be sold on the Web. E*Trade plans to add index funds that follow the Wilshire 5000 and other market indexes by summer. “The only fund we will be introducing will be in the index vein,” says Bruce Murray, general manager of E*Trade’s mutual-fund group.

A slew of specialized stock indexes are in development, paving the way for even more index-fund products. Schwab is working on a socially responsible version of its 500-stock index. Dow Jones, S&P, and others have been rolling out euro indexes pegged to stocks trading in Continental Europe’s single currency, and Barclays Global Investors, the world’s largest index-fund manager, is even designing a global index

Cover Story

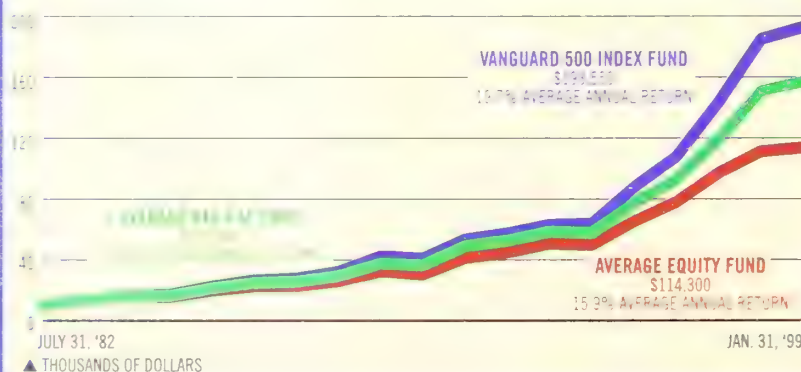
THE INVESTOR REVOLUTION

equities, including the 20% of the market cap the S&P 500 misses. Even Vanguard’s senior chairman, John C. Bogle (page 132) thinks that an index fund based on the Wilshire 5000 is the purest form of indexing. Wilshire Associates Inc., a money manager based in Santa Monica, Calif., itself launched a Wilshire 5000 fund on Feb. 1.

Brokerage firms and mutual-fund groups insist that in today’s overheated stock market, investors need savvy managers more than ever to find the few remaining bargains. Experienced mutual-fund managers are paid as much as \$5 million a year to comb through financial data, grill chief executives, and develop theories about how markets work. Index funds, by contrast, make no attempt to snap up winners and jettison losers. Computers simply tell traders to buy stocks in

INDEXING MAKES A DIFFERENCE

Let’s say you invested \$10,000 in the average U.S. equity mutual fund, the average big-cap fund, and a Standard & Poor’s 500 fund at the beginning of the bull market in 1982. What would those investments be worth today?



WHERE MANAGE TRAIL T INDEXE

will track the stocks of multinational corporations. index offerings have grown more sophisticated, so have uses. Standard & Poor's Depository Receipts (SPDRs) on the American Stock Exchange and invest in the S&P and many of its components. Investors can "short" the et or sectors by selling borrowed SPDRs in the hope of ing them at lower cost if the indexes fall. In addition, a erop of "enhanced" index funds tries to outsmart the indexes they track by tinkering with weightings. Other use borrowed money to try to double the returns of in- including the S&P 500 and the NASDAQ 100. h high-octane funds are attracting a new, daring breed

erage of 87% of the stocks they own each year.

The bottom line is that while the average large-stock equity fund annually pockets \$2 of every \$100 you invest, most big index funds take only 25¢. With compounding, that cost advantage adds up over time. Indeed, over the past decade, 84% of large-cap fund managers have trailed their main benchmark, the S&P 500, while 76% of all managers have fallen behind the Wilshire 5000. Passive funds have also maintained an edge over stock-pickers in emerging markets, Europe, and Latin America, as well as in mid-cap U.S. stocks and U.S. bonds. Bond index funds are real sleepers (table, page 130). They account for just 3% of overall bond-

"I definitely believe in index funds for the S&P 500, but all caps are much riskier. I think you need to be more selective"

— MARY BALDWIN,
Melbourne, Florida



estor. Take Herbert Abelow, 75, of Delray Beach, Fla. summer, when stocks were crashing, he used two new from ProFunds to short the S&P 500 and the NASDAQ he bold move helped him gain 70% for the year.

SLEEPERS. The trouble is, not all of the new products he low fees that have given index funds their only en- advantage over active managers. Consider S&P 500 Their expense ratios are around 0.2%, 1.2 percentage lower than those of actively managed rivals, because on't have to pay for big-ticket items like research and ising. Plus, because index funds hang on to stocks un- drop out of the index, they trade less. That saves on age commissions and generates fewer taxable cap- ns distributions than active funds, which replace an av-

fund assets. Yet last year, the Vanguard Total Bond Market Index fund, the biggest with \$7.8 billion in assets, beat 87% of actively managed bond funds, with an 8.6% return. Over the past five years, only 14% of bond managers have beaten the Lehman Brothers Aggregate Bond Index, the closest approximation to the entire investment-grade market.

Don't mistake indexing for a sure thing, however. Although the strategy tends to come out on top over time, it doesn't always beat active managers in a particular year or guarantee positive returns. And by definition, index funds can't escape bear markets. But many stock-pickers haven't been able to sidestep market downturns, either, even though they can flee to cash. True, when the market declined in 1980-82 and crashed in 1987, active managers prevailed. But other times, such as in the

	AVG. ANNUAL TOTAL RETURN 1989-1998	FUND GROUP/ INDEX	AVG. ANNUAL TOTAL RETURN 1989-1998
ME	16.40%	GLOBAL GROWTH/INCOME	10.50%
	19.47	MSCI WORLD FREE	12.16
	17.00	EUROPE	12.44
IO GROWTH	22.38	MSCI EUROPE	16.54
E	14.89	EMERGING MKTS.	4.60
IO VALUE	17.66	IFCI COMPOSITE	10.05
	21.62	GOLD/PRECIOUS METALS	-2.57
IGY	23.94	GOLD. SACHS PREC. METAL	-1.56
	18.16	ASIA/PACIFIC EXC. JAPAN	6.41
	19.73	MSCI ASIA/PAC. EXC. JAPAN	7.42

**...AND WHERE
THEY STILL
OUTPERFORM**

DATA: STANDARD & POOR'S INDEXES

FUND GROUP/ INDEX	AVG. ANNUAL TOTAL RETURN 1989-1998
SMALL CAP	16.03%
RUSSELL 2000	13.88
AGGRESSIVE GROWTH	15.44
RUSSELL 2000 GROWTH	12.49
FINANCIAL	22.34
S&P FINANCIALS	19.18
GLOBAL GROWTH	12.44
MSCI WORLD FREE	11.81
JAPAN	-0.67
MSCI JAPAN	-4.39

bear market of 1973-74, index funds won out. And last August, when the Dow Jones industrial average fell 14%, only two categories of funds, both mid-caps, beat their benchmarks. Like other industry-specific funds, tech funds trailed, falling 20%, vs. 18% for the Pacific Stock Exchange technology index. "The average fund can't keep up with its index when it's sunny or rainy," says Susan Dziubinski, editor of Morningstar's *Fund-Investor* newsletter.

ROUGH EDGES. Two sectors where managers have continued to top the indexes are small caps and diversified international stocks. One theory is that these markets are not as widely followed, so smart pickers have more opportunities to profit. "I definitely believe in index funds for the S&P 500, but small caps are much riskier. I think you need to be more selective," says Mary Baldwin, a financial planner in Melbourne, Fla. Index fans counter that the managers may be taking higher risks or cheating around the edges. Since large stocks have been dominant, many small-cap managers have juiced up returns by buying a few big names. Transamerica Premier Small Company fund has big bets

“The tough thing is hearing about the big hits your buddies have with this fund or that”

— CHRISTOPHER CRAIG,
New York City



Cover Story

THE INVESTOR REVOLUTION

small, at \$9 billion and \$16 billion, respectively.

By drifting away from their advertised investment style, active small-cap funds may be left behind if small stocks take off. Since 1980, small stocks have led the market seven times. And in four of those years, funds pegged to the Russell 2000 have beaten small-cap managers. Unlike managed funds, index funds never drift in style, making them ideal for investors who want to carry out an asset-allocation plan (page 134). "With an index fund, you very much know that what you are buying is what you are going to get," says Randy Oldenburg, a financial planner at Camden Financial in Scottsdale, Ariz.

One thing that could give indexing a black eye would be a tumble in large-cap stocks, since most indexed money remains tied to the S&P 500. After four years of big gains, Van-

guard Chairman John J. Brennan warned in a recent letter to shareholders that the big-cap party "won't last forever." In fact, there is evidence that the money flowing into index funds may be contributing to a speculative bubble in the S&P 500. When Standard & Poor's Corp. (like BUSINESS WEEK, a unit of The McGraw-Hill Companies) puts new stocks in the index, the additions see their prices jump an average of 10%.

However, the main reason for the S&P 500's runup is the automatic increase in the prices of 15 mega-cap companies such as Microsoft Corp., which together accounted for half of the index's rise last year. It is primarily this huge investor appetite for dominant stocks that pumped up the index, contends Ivo Modigliani, a stock strategist at Morgan Stanley. She points out that half the stocks in the S&P 500 rose less than 6.6% last year.

If you're worried about overexposure to the S&P 500 in any other sector, shop for funds that cover the most territory. "There's a little less risk in a broader index," says Burton Malkiel, a Princeton University economist and author of *Random Walk Down Wall Street* (W. W. Norton, \$15.95). You can cover everything with only three funds: one for stocks (indexed to the Wilshire 5000), another for bonds (indexed to the Lehman Brothers Aggregate), and a third for overseas stocks (indexed to Morgan Stanley Capital International's EAFE index ("Europe, Australasia, and Far East").

If you choose to focus your money on narrower index funds, including the S&P 500, you're effectively betting against the market as a whole. You may be right, but the bet does

counter to the concept of index investing, which is that you can't beat the market in the long run. That's why Christopher Craig, a Manhattan marketing executive, only the broadest of index funds. "The tough thing is hearing about the big hits your buddies have with this fund or that," he says.

Because indexing's advantage is its low staying power away from funds

BOND FUNDS CAN'T BEAT THE INDEXES

DATA: STANDARD & POOR'S MICROPAL

FUND GROUP/ INDEX	AVG. ANNUAL TOTAL RETURN 1989-1998
TREASURY	9.14%
LEHMAN GOVT.	10.09
INT. TREASURY	8.86
LEHMAN INT. GOVT.	9.25
GOVT. MORTGAGE	8.72
LEHMAN GOVT./MORTG.	10.06
SHORT TREASURY	7.56
LEHMAN 1-3-YR. GOVT.	8.26
CORPORATE	9.23
LEHMAN GOVT./CORP.	10.26

FUND GROUP/ INDEX	AVG. ANNUAL TOTAL RETURN 1989-1998
HIGH QUALITY CORP.	9.35
LEHMAN AAA CORP.	10.67
HIGH YIELD CORP.	10.06
LEHMAN HIGH YIELD	11.48
GOVT. AGENCY	6.41
LEHMAN CORP./MORTG.	10.32
CONVERTIBLE	12.56
GOLDMAN SACHS CONVERT.	12.60
STRATEGIC INCOME	9.06
SALOMON WORLD GOVT.	9.88



The **eCommerce Portal**™

"The Knowledge People"



SERIOUS PLACE FOR SERIOUS BUSINESS ON THE WEB

Source

from more than 86,000 suppliers worldwide

Search

over 100,000 complete and unabridged business catalogs

Buy

in a secure Internet environment

Belong

to the world's only Internet community of serious business buyers and suppliers.

Find out how.

Go to www.ec-portal.com or call 1-800-297-5377

Outside the US: +1 (561) 272-7710



high expense ratios and 12(b)-1 fees, which pay for marketing. It was easy to dismiss the Domini Social Equity fund's 0.98% expense ratio when the fund delivered a 33% gain last year. But if the market falls, those expenses—nearly twice the average for index funds—will take almost as big a bite out of returns as those of some managed funds.

Cover Story

THE INVESTOR REVOLUTION

While index funds may seem to be interchangeable commodities, good managers can save shareholders a few basis points here and there. Last year, Vanguard's S&P 500 fund beat the S&P index itself—28.62% to 28.58%. How? By buying S&P 500 futures when they were trading at a discount to the actual stocks. To prevent cash

from sitting around in a rising market, traders invest contributions immediately. "They always say a monkey can run an index fund, but it's not true," says Vanguard managing director Gus Sauter.

Index funds like Sauter's are a thorn in the side of active money managers, many of whom are humiliated after years of trailing funds that use not a whit of research or judgment. Some stock-pickers say it's unfair to be measured against capitalization-weighted indexes, which allow rising stocks like Microsoft to account for an ever-growing portion of their performance. Like it or not, though, index funds are here to stay. With their unbeatable cost advantage, they represent a powerful and lasting challenge to the comfortable old ways of managing money.

By Anne Tergesen and Peter Coy in New York

THE DEBATE GOES ON: USE BRAINS OR INDEXES?

Byron R. Wien, U.S. equity strategist at Morgan Stanley Dean Witter, and John C. Bogle, senior chairman and founder of Vanguard Group, are good friends. But the Wall Street veteran and the index-fund pioneer differ on the merits of investing in funds that replicate broad measures of market performance. The two have debated the issue since Wien wrote an essay, "I Hear the Death Rattle of Indexing," in 1993. With indexing anything but dead, they turned to *Personal Finance* Editor Anne Tergesen to chronicle the latest installment of their argument.

Will active managers have their day?

BOGLE: If we get a big recovery in small stocks, it is possible, and I would even say likely, that the average mutual fund will begin to outperform [the Standard & Poor's 500-stock index]....

People are investing very heavily in the S&P 500 because they are always looking for the hot fund. But where index funds find their finest fruition is in the total stock market [the Wilshire 5000 index]. That is the theory of indexing: Own the market and by the time we take out our tiny costs, you will beat most participants.



BOGLE: "Own the market and... you will beat most participants"



WIEN: "Investment management is a rare skill, refined over time."

WIEN: Like any other strategy that works, indexing has a susceptibility to get overdone. When that happens, it will underperform for a period. This market tends to recognize what's working well and investors flood into it, ignoring the wallflowers. Right now, the top 50 stocks in the S&P 500 have an average price-earnings multiple of 47 on forward earnings and the other 450 have a P/E of 20.... If the 50 most dominant stocks that are driving the index slow down and the bottom 450 start to outperform, chances are the active managers will start to outperform. That's because they own a disproportionately smaller share of the dominant stocks and a disproportionately larger share of rest.

Does indexing work for smaller stocks?

BOGLE: Small-cap indexing works better than large-cap indexing, in

part because [managed] small-cap funds are a lot more expensive to run. Also, small-cap stock funds take on about 35% more risk than the [Russell 2000] index. Therefore, on a risk-adjusted basis, small-cap index funds do 4.4% better than active managers.

WIEN: It's hard to find a good small-cap index that's representative of the asset class. In

ternational indexes very often have more serious problems. In some countries, you can have a single stock that represents 30% of the market. Very few people would be willing to put that much of their assets in one company.

Are index funds the wave of the future?

BOGLE: Five years ago, I said the Vanguard 500 Index Fund would be the largest fund in America by the end of the millennium. I don't have any trouble thinking that will come true.

WIEN: Investment management is a rare skill, refined over time. Some money managers, over longer periods, have beaten the market by quite a lot. There's no guarantee they will do it in the future, but that's the way to bet.

The steak.



The sizzle.

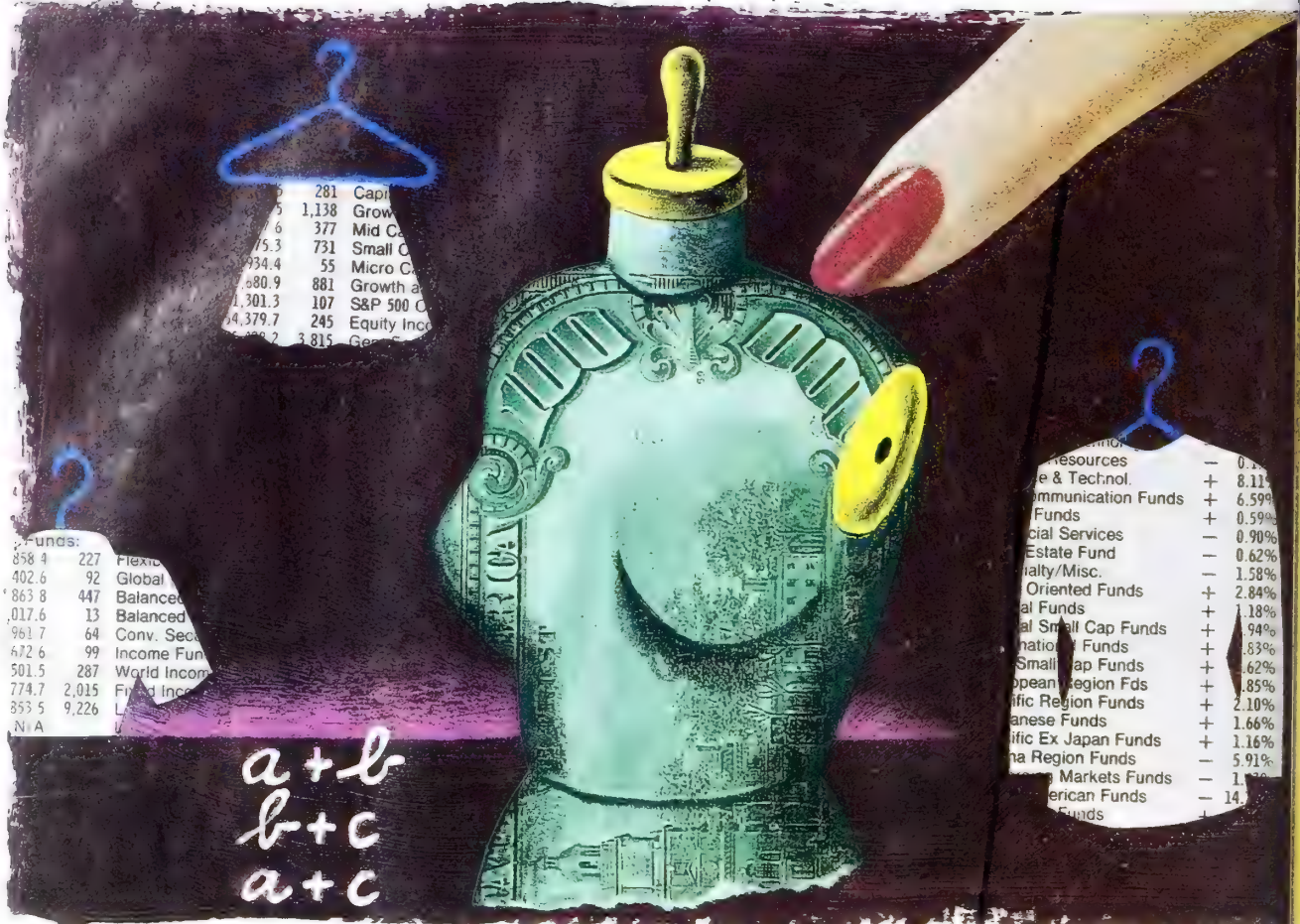
\$18,995: Loaded. Finally, a car that delivers more than what you paid for—the Chrysler Cirrus LXi. Start with a 24-valve V6, premium sound and air conditioning. Add the fact that it was just named “Best Entry

Midsize Car in Initial Quality”*** by J. D. Power and Associates, and we’ll wager you’ve rarely experienced a steak with as many garnishes as the new Cirrus LXi. Information? Call 1.800.CHRYSLER or visit www.chryslercars.com.



CHRYSLER CIRRUS

MSRP after \$1,000 cash allowance includes destination Tax and options extra ***The Chrysler Cirrus was the highest-ranked entry midsize car in the J. D. Power and Associates 1998 Initial Quality Study 2nd Study is based on a total of 58,117 consumer responses indicating owner-reported problems during the first 90 days of ownership



THE REAL DECISION

"WHAT DO I THINK OF CREATING a portfolio only out of index funds?" asks Harold R. Evensky of the financial planning firm of Evensky, Brown & Katz in Coral Gables, Fla. "I think it's a terrific idea." Meir Statman, professor of finance at Santa Clara University agrees: "You can do everything you need to do in a portfolio with index funds."

Okay, so if you invest with index funds you won't wow anyone with tales of savvy stock picks. No reason to watch CNBC for hot tips, worry about nosebleed valuations on Internet stocks, or

What to put where? The crucial art of allocating assets hinges on using the right index funds

struggle to pick the next top-performing mutual fund. Good news

indeed. "The biggest investment mistake people make," says Barbara Raasch, partner at Ernst & Young, "is focusing on last year's mutual-fund performance and not on what really drives returns."

Using index funds concentrates your mind on the one investment decision that truly matters: asset allocation (table, page 136). Economic research suggests that how you divide your portfolio among stocks, bonds, and other assets is the main determinant of its long-term performance. By definition,

with an index fund you make a commitment to a whole market or sector rather than to individual securities of a money manager who may or may not remain true to an advertised goal—sticking to growth, value, or big-small-cap stocks.

When you're allocating assets, you need to consider the inevitable trade

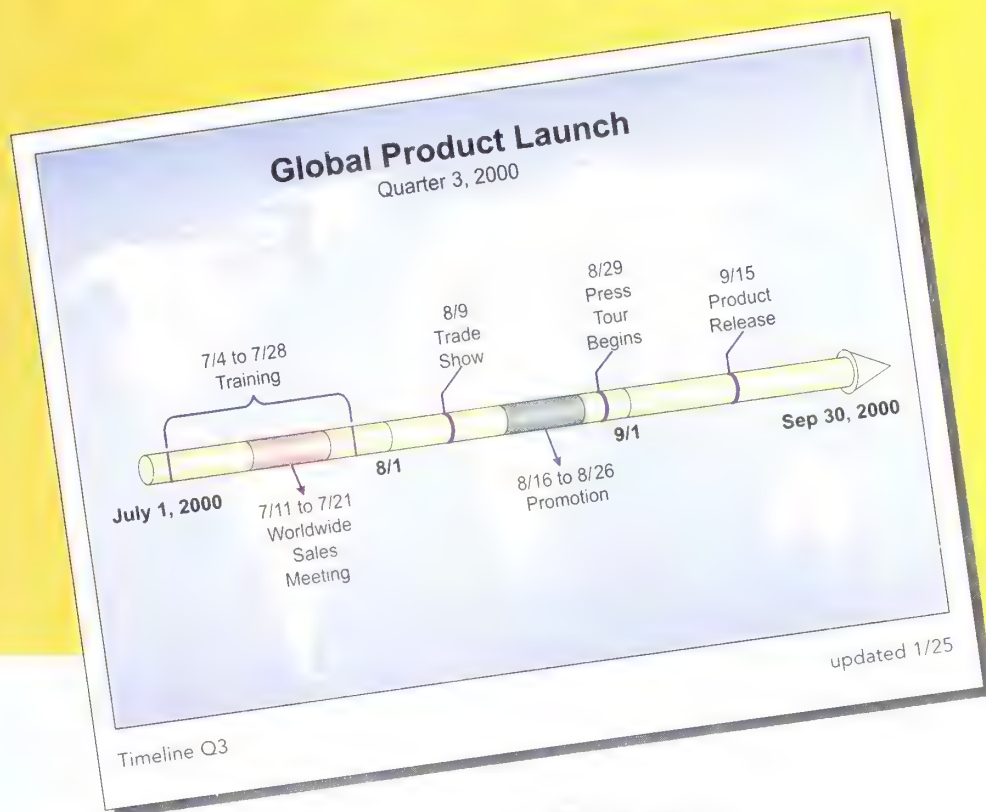
between risk and return. How much risk are you willing to take? How much risk should you expect from a particular strategy? For instance, the Standard & Poor's 500-stock index has returned 13.5% annually since 1950. But on the way to earning that return, figures Ibbotson Associates, its value fluctuated, on average, by 16.8% each year. Long-term Treasury bonds, by contrast, returned 5.9% over the same time period. Reflecting their lower level of risk, their annual volatility was only 10.7%. And T-bills returned 5.2% annually since 1950, with only 2.9% annual fluctuations. The trick is to mix asset "choices" such as these to get the highest potential return for the amount of risk you're willing to accept.

ANTONIO'S ADVICE. Take a young woman who's early in her working career and has a high tolerance for risk. An aggressive investor with a long time-horizon, she might sign an overall investment portfolio that's 54% in large-capitalization stocks, 20% in small caps, 24% in international equities, and 2% in fixed income. Her one-year expected

Cover Story

THE INVESTOR REVOLUTION

SAVE A THOUSAND WORDS.



www.visio.com/save

Let's face it, long text is inefficient, cumbersome, and, well, long. With Visio® Standard 5.0 you can consolidate big ideas into concise, polished diagrams. (Check out the launch timeline above.) Quickly communicate entire process flows, organizational structures, timelines, and more. Then drop your diagrams right into Microsoft Word, Microsoft PowerPoint, e-mail, even distribute them over the web. It's time to move beyond mere words with Visio Standard 5.0, the undisputed leader in business diagramming. Call 1-800-24-VISIO, reference A479. Or see it in action at www.visio.com/save.

FREE MICROSOFT® INTELLIMOUSE® WITH PURCHASE OF VISIO STANDARD 5.0.

SEE VISIO STANDARD BOX FOR DETAILS. OFFER VALID WHILE SUPPLIES LAST. EXPIRES 6/30/99.



“The biggest investment mistake...is focusing on last year's mutual-fund performance and not on what really drives returns.”

— BARBARA RAASCH, partner at Ernst & Young

turn is 11.6%, based on historic data. The expected risk on her portfolio is 13.8%, which means that there's a two-thirds probability that the return over the next year will be between 2.2% and 25.4%, says Raasch. In other words, if the young woman had a \$100,000 portfolio, there's a two-thirds probability it would be worth between \$97,800 and \$125,400 at yearend. An investor wanting lower risk might go with 40% large-cap stocks, 15% small caps, 18% international, and 27%

fixed income. The expected return is 10.1%, but the risk factor would be 10.9%.

Cover Story

THE INVESTOR REVOLUTION

Diversification is the other critical idea behind asset allocation. Antonio in Shakespeare's *The Merchant of Venice* was unworried because "my ventures are not in one bottom trusted, nor to one place; nor is my whole estate upon the fortune of this present year." But how much diversification do you need and how do you figure that out? Many economists and financial planners agree that the traditional candidates are enough for most investors: domestic stocks, international equities, bonds, and cash or its equivalent. There is some relationship between the movements of U.S. stocks and foreign equities, a weaker relationship between U.S. stocks and Treasury bonds, and essentially no correlation between stocks and Treasury bills. By mixing some of each asset class into a portfolio, you may give up some performance but will lessen the risk of having your savings all go down the drain at once.

True, any U.S. equity investor who diversified over the past decade got lower returns compared with ones who kept everything in the Vanguard 500 Index fund or blue-chip stocks. But since no one really knows which markets will soar or sink in the future, investing in all the major asset classes creates an opportunity to catch the next big market upturn—and buy a margin of safety against a major decline. "There have been long periods of time when stocks do poorly," says James Paulson, chief investment officer at Norwest Investment Management Inc. "These periods can exceed people's psychological ability to handle it."

KINGS FOR A DAY. Index funds offer a number of advantages when it comes to asset allocation. You can buy index funds that capture the entire U.S. stock and bond markets and much of the overseas capital markets, too. The most important advantage over actively managed funds is low cost. If you had invested \$10,000 in 1988 in the average equity fund, your investment would have grown to \$42,342 in 1998 after subtracting fees of \$5,225, according to Vanguard Group. A

comparable investment in a typical S&P 500 index fund would have grown to \$57,147 after taking its modest fees of \$1,000 into account.

Fees aren't the only costs associated with active management. Time is another. You have to ferret out good managers and then monitor them closely. That's tough to do. A study of equity mutual funds from 1971 to 1991 by professor Burton G. Malkiel of Princeton University makes sober reading. Among his findings: Even a superb 10-track record failed to guarantee a winning performance the following 10 years. A portfolio of the 20 best stock mutual funds from the 1970s underperformed all funds during the 1980s.

The job of running "what if" scenarios to discover right asset allocation for you has been made a lot easier with the proliferation of computer-finance software and websites devoted to money. To give you an idea, Ernst & Young created a hypothetical portfolio for someone in the middle of a career and with a moderate ability to cope with volatility swings in the market. We then went to Morningstar Inc. to find index funds with low expense ratios and good returns plugged them into the asset-allocation model.

How often should you rebalance a portfolio? Financial planner Evensky looks closely at the portfolios of his clients

AGE BEFORE RISK: A LOOK AT THREE PORTFOLIOS

DATA: ERNST & YOUNG
MORNINGSTAR INC., BUSINESS WEEK

If you're assembling an investment portfolio, you can find an index fund to fit just about any asset class. Here are sample medium-risk allocations for three investors: a 35-year-old at the start of her career, a 45-year-old at mid-career, and a 55-year-old at her career's peak.

INVESTOR PORTFOLIO	LARGE-CAP STOCKS	SMALL-CAP STOCKS	INTERNATIONAL STOCKS	FIXED INCOME	EXPECTED ANNUAL RET.
35 YEARS OLD	46%	18%	21%	15%	10.9%
45 YEARS OLD	37	15	18	30	10.0
55 YEARS OLD	32	12	14	42	9.2

FUND	SSGA S&P 500	SCHWAB SMALL CAP	FIDELITY SPARTAN INT.	VANGUARD TOTAL BOND MARKET
EXPENSE RATIO	0.17%	0.52%	0.35%	0.20%
1998 TOTAL RETURN	28.47%	3.57%	21.24%	8.59%

every quarter. He allows for a 7% drift up or down from original asset allocation before adjusting the portfolio back to the original ratio. Raasch, however, believes that reviewing a portfolio once a year is enough, and she recommends picking the same day every year—say, Jan. 1—to see what's in which basket.

If poring over balance sheets and studying company statements is not your passion, index funds are the best way to invest. Even Warren Buffett, a methodical stock picker there ever was one, concedes that point. "By periodically investing in an index fund...the know-nothing investor actually outperform most investment professionals," Buffett wrote in 1993. Allocating your assets carefully and investing them in index funds may not make you the next Sage of Omaha. But it's a strategy that has worked well for many investors so far.

By Christopher Farrell in St. Paul, Minn.

FOR THE BEST DIGITAL DOCUMENT HANDLING SOLUTIONS, HERE ARE TWO NUMBERS TO CALL.



(Think of it this way, we saved you a call.)



At Savin we believe we offer some of the best document handling solutions around.

After all, like you-know-who, we too have the forward-thinking, award-winning technology essential to boosting productivity in today's digital offices. With fast, versatile, connectable digital imaging systems that allow you (or your workgroup) to print, sort, duplex and staple — right from your desktop. And full-color imaging systems that turn electronic documents into brilliant hard copy.

But advanced digital technology is just the beginning. Because at Savin we're dedicating ourselves to becoming the fastest, most responsive, most easy to work with name in the business.

With smart, energetic Savin professionals willing to do whatever it takes to give you the satisfaction and service you deserve.

To find out more about the company with the technology and attitude that will win you over, call us at 1-800-234-1900 or contact us online at www.savin.com. And that other number? Sorry, you'll have to look it up.



savin®

WE'VE GOT WHAT IT TAKES TO WIN YOU OVER™

SAVIN CORPORATION, 333 LUDLOW ST., STAMFORD, CT 06904

BY GENE G. MARCIAL

COOPER: TAKING OFF WITH PIRELLI?

Shares of Cooper Tire & Rubber (CTB) aren't exactly burning up the road these days, but they may start to do so—and mighty soon. Whispers are that the fourth-largest U.S. tire maker has signed a strategic alliance with Italian tire leader Pirelli that, some pros say, could lead to a merger between the two companies sometime in the future.

It isn't clear whether Pirelli is buying an equity stake in Cooper, but it has agreed, according to one New York money manager, to designate Cooper the exclusive distributor of Pirelli tires in North America. Cooper, which so far supplies tires for just the replacement market, had been looking to become a "more global" company to achieve aggressive growth, according to this pro.

Cooper has been "exploring many options, including a merger, alliance, or joint venture," notes Saul Ludwig, managing director of McDonald Investments in Cleveland, who rates Cooper shares a strong buy. Cooper, which also makes other auto parts and rubber products, needs a "major brand" to complement its own, says Ludwig.

According to one tire executive, the alliance with Pirelli will add a "tier one" product to Cooper's tire portfolio. Tier one means premium tires that meet the stringent standards of the original-equipment market.

The name Pirelli, Europe's third-largest tire maker, should also enhance Cooper's brand awareness. And Pirelli gives Cooper the means to supply national and regional tire dealers with a complete line of original-equipment and replacement tires, for one-stop shopping, she adds. Cooper has

strong dealer relationships Pirelli could use in the U.S., while Pirelli's technology would help Cooper in the premium-tire market, says this executive.

McDonald's Ludwig says three major customers that signed up with Coop-

er in late 1998 will add a further 3 million tires to its annual base of 40 million. And the company, he adds, has identified cost savings of \$40 million that will show up in 1999 results. Ludwig figures Cooper will earn \$1.75 a share in 1999 and at least \$2 in 2000. He thinks the stock, now at 20, could hit 30 this year.

A FALSE-NEGATIVE READING AT CYTC

Cytac (CYTC) thought it was putting out a favorable story on Jan. 29, when it announced it would bolster marketing funds for its flagship product—the ThinPrep Pap test to screen for cervical cancer. But some analysts thought the news spelled trouble: They pulled their buy rating on Cytac. The stock tumbled from 23½ to 17.

Enter investors scouting for bargains, inspired by other analysts bullish on Cytac after the fall. And there is talk that the drop has attracted a major drug company to view Cytac as an acquisition target. Indeed, by Feb. 10, the stock had jumped to 21, propelled in part by SmithKline Beecham's sale of its clinical

lab to Quest Diagnostics, a proponent of ThinPrep. Cytac can now gain access to certain new regions due to SmithKline's control in those markets. SmithKline was one of three major labs that hadn't adopted ThinPrep.

Although there are other Pap tests on the market, Cytac's proprietary ThinPrep System improves diagnostic accuracy, according to Wade King of BancBoston Robertson Stephens in San Francisco, who issued a buy rating on Feb. 8. There are 500 labs in the U.S. that use the ThinPrep test, with 9,000 physicians providing them. Some 125 health plans, representing 100 million members, will cover this Pap test, according to Cytac CEO Patrick Sullivan. In May, 1996, the Food & Drug Administration approved ThinPrep as a replacement for the conventional Pap smear, agreeing it was "significantly more effective."

On Feb. 10, Sandra Hollenhorst of

Vector Securities raised her forecast for Cytac, based on its new "excellent strategy" of focusing marketing effort in regions where insurers' reimbursement policies are favorable. She upped her 1999 estimate for earnings from 3¢ a share to 54¢, and for revenues from \$85.4 million to \$88.7 million. Hollenhorst also increased her stock price target from 25 to 34. In 2000, she says earnings will jump to \$1.70 a share and sales of \$150 million.

THIS GUMSHOE IS MAKING TRACKS

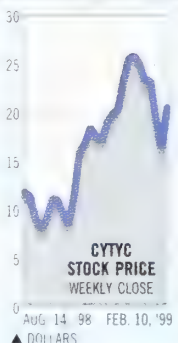
Money manager Audrey M.T. Jones isn't giving up on small cap-stocks with market caps of \$10 million to \$1.5 billion. "That's where the real values are in this market," says Jones, executive vice-president at investment bank Morgan Grenfell in New York.

One small cap that she's betting on to become a big winner: Kroll-O'Gara (KROG), which provides security services including investigative and intelligence work, voice and data security on computer systems and the Internet, and armored cars. "Kroll-O'Gara is definitely the leader in this fast-growing business," says Jones. Rampaging demand for such services is reflected in the stock's fast climb, from 16 a share a year ago to 41 on Jan. 12.

Worldwide spending for protection has risen from \$20 billion in 1980 to \$55 billion last year, notes Jones. By 2000, she thinks spending will exceed \$70 billion, 60% that outside the U.S.

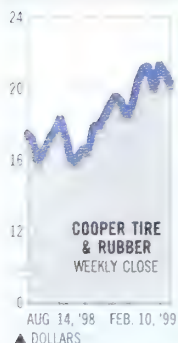
Jones says Kroll will post revenue of \$340 million in 1999 and \$400 million in 2000, up from 1998's estimated \$250 million and 1997's \$190 million. Jones expects earnings of \$1.25 a share in 1999 and \$1.70 next year. The stock, now at 37, should hit 50 this year, she adds.

WAS THE STORY MISUNDERSTOOD?



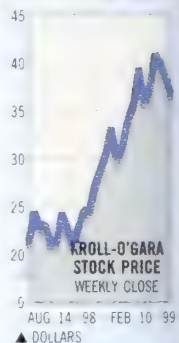
DATA: BLOOMBERG FINANCIAL MARKETS

SET TO HIT THE GAS



DATA: BLOOMBERG FINANCIAL MARKETS

THE WORLD SEEKS SECURITY



DATA: BLOOMBERG FINANCIAL MARKETS

BusinessWeek ONLINE

For more coverage of the markets, visit our Web site at businessweek.com

NOT JUST A FAMOUS NAME AT THE FCC

How Powell's strong ties to Capitol Hill are giving him clout

Last June, Federal Communications Commissioner Michael K. Powell and a top aide were wrestling with a dispute that the FCC had been unable to resolve for a decade. By court order, the agency had to make a decision within a few weeks, but it remained split. That's when Powell pulled some slides out of his desk and showed them around. They were X-rays of his broken pelvis from an accident that nearly left his life hanging by a thread. "It was hard," he says. "This is not."

When Powell, son of General Colin L. Powell, joined the FCC as a Republican commissioner in November 1997, many thought he was off his appointment as mere political expedient. After all, it was the Commerce Committee Chair John McCain (R-Ariz.), an old friend, who got him the job, and McCain's Presidential ambitions would be helped mightily from the general's support.

But the younger Powell, 35, has surprised detractors, learning quickly how to navigate the high-decibel battles in the multibillion-dollar telecom industry. In just a year at the FCC, he has emerged as a credible voice for deregulation. And strong backing from Capitol Hill, in a collaborative style has gained influence with the three-Democrat majority. "A braking force on the more ac-regulators," says W.J. "Billy" (R-La.), chairman of the House communications subcommittee. "The accident that Powell survived in 1994 did more than shape his appointment at the FCC. 'It was the best

thing that has ever happened to me," he says of the jeep rolling over him during a military exercise when he was an Army officer in Germany. After 17 surgical procedures and a full year of hospitalization ended his military career, Powell turned to the law. He graduated from Georgetown Law School, snagged a clerkship on the District of Columbia Court of Appeals, and then landed a job as chief of staff

MICHAEL K. POWELL

BORN March 23, 1963. Birmingham, Ala.

EDUCATION B.A. 1985, William & Mary; J.D. 1993, Georgetown.

CAREER HIGHLIGHTS U.S. Army, 1985-88; Pentagon assistant for Japan, 1988-90; clerk, U.S. Court of Appeals, D.C., 1993-94; associate, O'Melveny & Myers, 1994-96; chief of staff, Justice Dept. Antitrust Div., 1996-97.

FAVORITE TV SHOW The Cartoon Network's *Dexter's Laboratory*.

DREAM JOB Theater lighting design.

FAMILY Married, two young sons. Goes to work by 5:30 a.m. so he can get home and spend time with them.

for Justice Dept. trustbuster Joel I. Klein.

The accident also left Powell with a zest for life that makes him stand out in a city of policy wonks. He usually gets to work by 5:30 a.m. so he can make it home in time to spend a couple of hours with his two young sons. Occasionally, he sneaks away during lunch to watch *The Young and the Restless* with the secretaries at the court where he clerked. Powell's passions range from technology to theater and television. He's a fan of the *Palm Pilot*, *Rent*, and the Cartoon Network.

Powell tends to be a team player, too. At the FCC, he is more apt to work

with the Democratic majority than to butt heads. "What you owe the public first and foremost is getting something done," says Powell. "I am fundamentally not an ideologue but a pragmatist." With the telecom industry changing rapidly, Powell prefers to get rules out quickly to give companies guideposts for critical decisions. But he would rather the market decide outcomes, not regulators.

"A CONDUIT." As one of two Republicans on the five-member commission, Powell certainly can't set the agenda. But by holding out a possible fourth vote, he is making his mark. FCC Chairman William E. Kennard wants solid majorities to fortify agency decisions against court challenges.

Still, Powell's influence may derive more from his heavyweight backers on Capitol Hill—vociferous FCC critics McCain and Tauzin—than from his own powers of persuasion. Certainly, the Democrats are well aware that Powell



could help shield the FCC from fierce attacks on Capitol Hill as it comes up for reauthorization this year. McCain and Tauzin want to downsize the agency to prevent what they think is overreaching regulation. At the least, factoring in Powell's views helps the FCC head off political firestorms. Increasingly, he is "a conduit to McCain," says a congressional Democratic staffer.

For example, Powell has worked to ease one of the GOP lawmakers' biggest beefs—the FCC's refusal to let the Baby Bells into the long-distance business. He championed a friendlier way: helping the Bells take steps to open up their local phone monopolies to competition. Once

101010

data

data

info
info

data

data information

0101

thou

29384fjcn/

010101

data

th

101010

data

informa

data

29384fjcn/

data

101010

101010

data

29384

data

29384

data

they do that, the FCC can allow them into long distance. Bell Atlantic Corp. is poised to be the first.

While Kennard and Powell, for now, see eye to eye on most issues, they could part ways soon. FCC Democrats are likely to set a high hurdle for the approval of pending mergers between SBC Communications and Ameritech and between Bell Atlantic and GTE. They fear such giants would make it even harder for new entrants to break into local phone markets. So they'll probably demand that the companies open the door to more competition. Powell, though, believes mergers should get a green light as long as they threaten no competitive harm. "I just don't trust my regulatory crystal ball as much as some others trust theirs," he says.

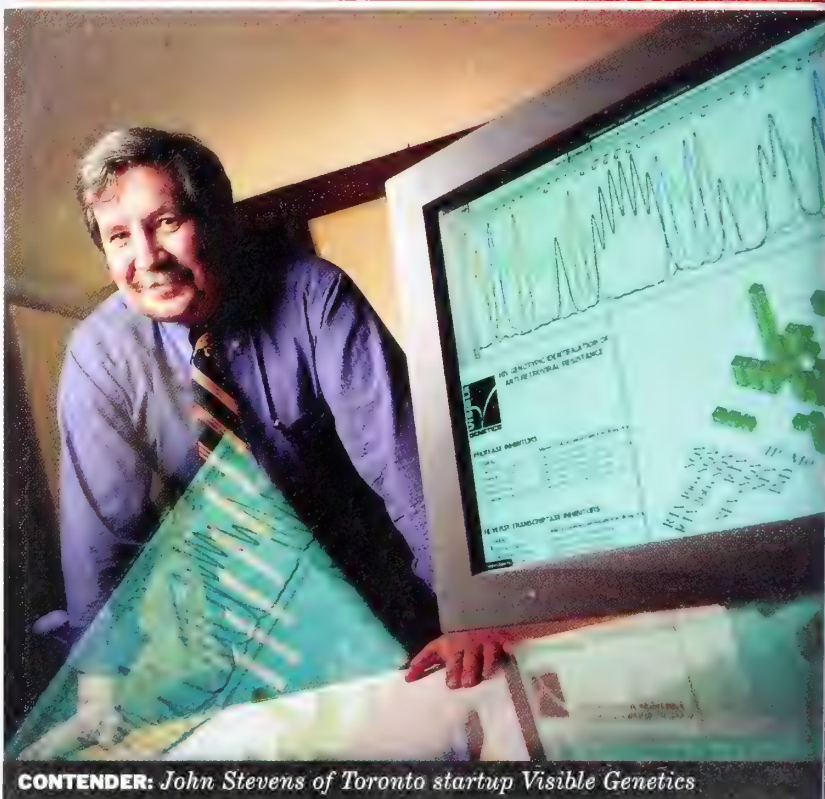
WHAT'S NEXT? Powell's hands-off response to a complaint by America Online against the pending merger between AT&T Corp. and Tele-Communications Inc. (TCI) also puts him at odds with Kennard. TCI now sells high-speed Internet access bundled with its own Internet service, @Home. Customers who want AOL must pay extra. AOL wants AT&T-TCI to give equal access to all Internet services. Powell argues that cable operators that have spent billions to upgrade lines should be able to favor their own ISPs over competitors'. He fears that an equal-access rule might dry up investment. Kennard, on the other hand, worries that cable companies could unfairly squeeze out other ISPs. The issue remains to be decided.

While Powell has established himself as a credible player at the FCC, some critics ask whether he has really made a difference. "Besides the eloquent speeches he's given, where has he fought the hard fight?" one former FCC official asks. Kennard himself once told a joke at a meeting about going out to dinner with all the commissioners. Powell was the one who pontificated on the five principles of the menu before ordering. Indeed, some Republicans are frustrated that he doesn't take a harder line. "He's not there to cut deals with Kennard," complains one GOP congressional aide.

Even as Powell grows into his FCC job, though, Washington insiders are speculating where he'll land next. If the GOP wins the White House, Republicans say he could be a contender for Attorney General. What post would Powell get if McCain were President? "Just about anything his father didn't want," says the Senator. Powell says he has no plans today to run for office. His Dad is characteristically coy. Says the general: "He will be heard from again, but I will not speculate on the political ambition of anybody with the last name of Powell."

By Catherine Yang in Washington

Science & Technology



CONTENDER: John Stevens of Toronto startup Visible Genetics

AIDS RESEARCH

OUTSMARTING THE VIRUS

Promising tests can map HIV's evolving resistance to drugs

In the never-ending war between man and microbe, the bugs have an uncanny ability to stay one step ahead. New studies reported in Chicago in early February at the Sixth Conference on Retroviruses and Opportunistic Infections reveal that the AIDS virus is developing resistance to potent anti-HIV drugs at an alarming rate—higher than researchers had expected. In some cities, more than one-quarter of new HIV infections involve drug-resistant viruses. And HIV's ability to mutate is causing once successful drug treatments to fail in as many as half of all AIDS patients in many clinics. "Drug resistance is a big problem, and it's not going away," warns Dr. John W. Mellors, professor of infectious diseases at the University of Pittsburgh.

But doctors are now getting a new weapon to use in the battle with the

virus. It's called resistance testing: the basic idea is simple: Researchers analyze the virus from an individual patient to see what mutations it has acquired—and what drugs it has become resistant to. Then they can pick the best drug to choose among the dozen or so available drugs to put together the best combination. Such individually tailored regimens represent "a whole new era of medicine," says John Stevens, aggressively evangelical CEO of Toronto-based Visible Genetics Inc.

SURPRISED SKEPTICS. In short-studies reported at the AIDS meeting, the approach worked well enough to surprise many skeptics. Patients whose viruses were tested for resistance before drugs were picked according to the results did up to twice as well as those who didn't get the tests.

Those results could open the door

the market for resistance-testing machines. There are now about 335,000 in the U.S. taking anti-HIV

If doctors test their viruses for mutations twice a year at \$400 per the U.S. market alone is \$270 million in Europe, Latin America, and and it's easy to see why testing like Specialty Laboratories in San Francisco, Calif., and North Carolina's Laboratory Corporation of America (LCA) along with start-ups like Visigenetics and Virco in Belgium are going hard to get their tests into the

"The companies are a lot at stake," says David Melnick, Kaiser Permanente's treatment expert.

are the companies pushing too hard? Researchers think so. And that has led off a controversy that has turned ugly. As researchers question each other's motives, the critics do not buy into the idea of resistance testing, but they worry about the difficulties of putting it into practice. For instance, some doctors question whether resistance testing tells them anything they can't learn from patients' treatment responses.

VIROLOGISTS. The problem is the sheer complexity of the AIDS virus. When physicians treat bacterial infections, they know if the bugs are

sensitive to antibiotics, they get a clear "yes" or "no" answer. But with HIV, there can be many shades of gray. In the approach to testing, used by Visigenetics, Specialty, Virco, and others, technicians read the code of two key HIV genes. The code for the enzymes reverse transcriptase and protease. Certain mutations in these genes are known to give the virus resistance to one or more drugs. But this genotyping, as it is called, can reveal scores of other mutations—and combinations of mutations—whose effects are less clear. Genotyping is very complicated," explains Dr. Douglas Richman of the University of California at San Diego. "At the moment, you look at a sequence and say: 'I'm not sure what this means.'"

Her approach to resistance testing—phenotyping, circumvents this by actually assessing drugs' ef-

fects on the virus in the test tube. But phenotyping, offered by ViroLogic Inc. in South San Francisco and Virco among others, has disadvantages, too. It costs about \$800, roughly twice the price of genotyping, and it takes weeks instead of days. In addition, the virus' behavior in the test tube can be different from its behavior in the body. And it offers just a snapshot of the virus' evolution, rather than revealing the pattern of mutations needed to predict future changes.

A further problem with either test is that it might not spot strains of the

TO TEST OR NOT TO TEST?

Companies have developed methods of telling whether AIDS viruses are resistant to drugs. But the testing has been highly controversial. Here are the pros and cons:

PROS

- Doctors who find a virus is resistant to a drug can avoid using the drug.
- Drug regimens designed with the help of resistance data seem to work better to keep the virus in check.
- If a drug combination is failing, doctors often change all the drugs in the combination. Resistance testing, however, may show that some still work.
- Resistant strains are spreading, making it imperative to test anyone with a new infection.
- Testing should save money by avoiding ineffective drug combinations.

CONS

- The tests aren't perfected. They may give different results for the same virus.
- More than one strain of virus can be present in patients. Testing may miss mutations that are present only at low levels.
- Given the complexity of resistance mutations, the information may not have any value in the clinic.
- There is still no evidence that basing drug decisions on the results of resistance testing will help patients over a period of years instead of months.
- At between \$400 and \$800 per test, costs are high.

fects on the virus that are present only at low levels in a patient, but which could rapidly take over when other strains are knocked out with drugs. Given all these difficulties, "we have to be sure that resistance testing is driven by research needs, not by companies' commercial agenda," says Stanford University professor of medicine Dr. Jose G. Montoya.

To win over the skeptics, companies have been supporting trials to find out whether resistance testing makes a difference. Doctors send in blood samples for genotyping or phenotyping when patients' drugs begin to fail and their viral levels soar. Based on the tests, experts recommend new drug regimens. Then researchers compare the patients to similar people whose new drug regimens were based on the traditional approach, an analysis of past treatment history.

The results of the first such trials have been promising enough to con-

vince many doubters. One study, led by Dr. John D. Baxter of Cooper Hospital/University Medical Center in Camden, N.J., found that 51% of patients who received new drugs based on genotyping knocked their viral loads back down to undetectable levels, compared with only 25% of those who didn't get resistance-testing advice. Such results "were a surprise," says Dr. John D. Stansell, medical director of the AIDS program at San Francisco General Hospital. "Most people were skeptical, as I was, that this would pan

out as a useful tool." Stansell is now getting constant reminders of the value of resistance information. He predicted, for instance, that one recent patient whose drugs were failing would harbor a viral strain resistant to the drug AZT. But when Stansell actually tested the virus, "it was clear it did not have the resistant mutation—and it responded beautifully to AZT," he recalls. Similarly, doctors are learning that the failure of a three-drug regimen doesn't mean that all three drugs are useless, as physicians had thought.

A rear guard of doubters is still arguing that the studies are too short to prove lasting benefits. But overall, "conviction is growing that resistance

testing is valuable," contends Kurt Hertogs, director of research and development for Virco in Mechelen, Belgium.

The final obstacle for the new technology is to convince insurers and health-care providers to pay for it. Proponents believe that the \$400-\$800 tests will actually save money. "Compared to the cost of weak treatment [everything from wasted drugs to more hospitalizations], the cost of the test is a drop in the ocean," argues Dr. Brian Gazzard of London's Chelsea & Westminster Hospital. Big health-care providers like Kaiser Permanente are withholding judgment until they finish their own studies, says Kaiser's Melnick. But resistance testing is expected to pass this hurdle too. That will open up a major market—and give thousands of AIDS patients a better chance of keeping up with their deadly viruses.

By John Carey in Chicago

Economic Vitality in a Volatile World

How Will the Americas Face the Challenge?

Find out by joining us at



The Global Challenge— Latin America in the World Economy

*March 24-26, 1999
Sheraton Bal Harbour Beach Resort
Bal Harbour, Florida*

Latin America's successful efforts at foreign debt reduction, liberalized trade, privatization programs, and deregulation of financial transactions have garnered international praise. Yet, worldwide economic conditions are forcing Latin American economies—considered hot just one year ago—to withstand a capital freeze. How will the social, political, and economic fabric of the region endure this climatic shift?

Don't miss the broadest coverage and most insightful analysis of the challenges confronting the American Hemisphere. From the Asia crisis and the role of regional trading blocs, to multinationals and what is necessary to develop a truly, sustainable economy—we've gathered the business, political, and economic leaders you need to hear—and meet—only at *The 1999 Business Week Americas Summit*.

BusinessWeek

EXECUTIVE PROGRAMS

Sponsored by

AT&T

Global Delivery Services from the
United States Postal Service

Nortel Networks

produced with the cooperation of
U.S. Department of Commerce
U.S. & Foreign Commercial Service

in association with
The Association of American Chambers
of Commerce in Latin America

Foreign Policy Magazine

The Harvard Institute for
International Development

The Institute for
European-Latin American Relations

Featured Speakers:



David D. Hale
Global Chief Economist
The Zurich Group



The Honorable
Thomas F. "Mack" McLarty III
former Counselor to
President Clinton and Special
Envoy to the Americas



The Honorable
Félix Peña
Undersecretary of Foreign
Trade, Argentine Ministry of
Economy, Public Works
and Services



Nancy Birdsall
Senior Associate
Carnegie Endowment for
International Peace; former
Vice President, Inter-American
Development Bank

Special Address By:



The Honorable
Andrés Pastrana
President of
The Republic of Colombia

Additional Speakers:

- The Honorable Bernard W. Aronson, Chairman, ACON Investments, LLC and Newbridge Andean Partners, L.P.
- The Honorable Alvaro García Hurtado, former Minister of the Economy, Republic of Chile
- The Honorable James R. Jones, former U.S. Ambassador to Mexico
- Felipe Larraín, Ph.D., RFK Visiting Professor of Latin American Studies, JFK School of Government, Harvard University; Director, Central America Project, HIID
- Jesús Seade, Assistant Director, Policy Development & Review Department, International Monetary Fund
- The Honorable Professor Paulo Renato Souza, Minister of Education Federative Republic of Brazil

Registration Information:

To register for *The 1999 Business Week Americas Summit*
for more information contact Julie Terranova,
Registration Manager,
Phone: 800-821-1329 (inside the U.S.)
212-512-2184 (outside the U.S.)

Fax: 212-512-6281
E-mail: julie_terranova@businessweek.com
Fax on demand: 800-821-1329, document #80

~~hype.~~
biz.

Decision-makers are deluged with choices, information and hype.
What they require are facts not fiction, news not noise.

It is vital to communicate with decision-makers
intelligently, credibly, definitively. We do.

Know more. Know DOREMUS.

DOREMUS

Five Simple Tricks to 5 a Day.

1. Stretch any meal with canned and frozen vegetables.
2. Buy fruits and vegetables in season to fit your budget.
3. Add fruit to make every meal more fun.
4. Start your day with fruit juice.
5. Grab fruit and vegetables for a quick snack.





PROTECTING **YOUR** SUCCESS

You always wanted to be your own boss.

As it turns out, you're also

your own secretary,

accountant and janitor.

.....

We understand the challenges of building a business like yours.

That's why we're committed to protecting your past accomplishments as

well as your future ones. Through our independent agents, we offer you

an extensive line of competitively priced products, including unique

coverage enhancements for property/casualty insurance. You'll find our

California roots give us a deeper understanding of local business needs.

Plus, we provide you with the financial security of our A+ rating and

Liberty Mutual backing. All of which allows us to give you something

even greater—peace of mind. To speak with a Golden Eagle agent

in your area, please call 1-800-688-8661, ext. 6400.

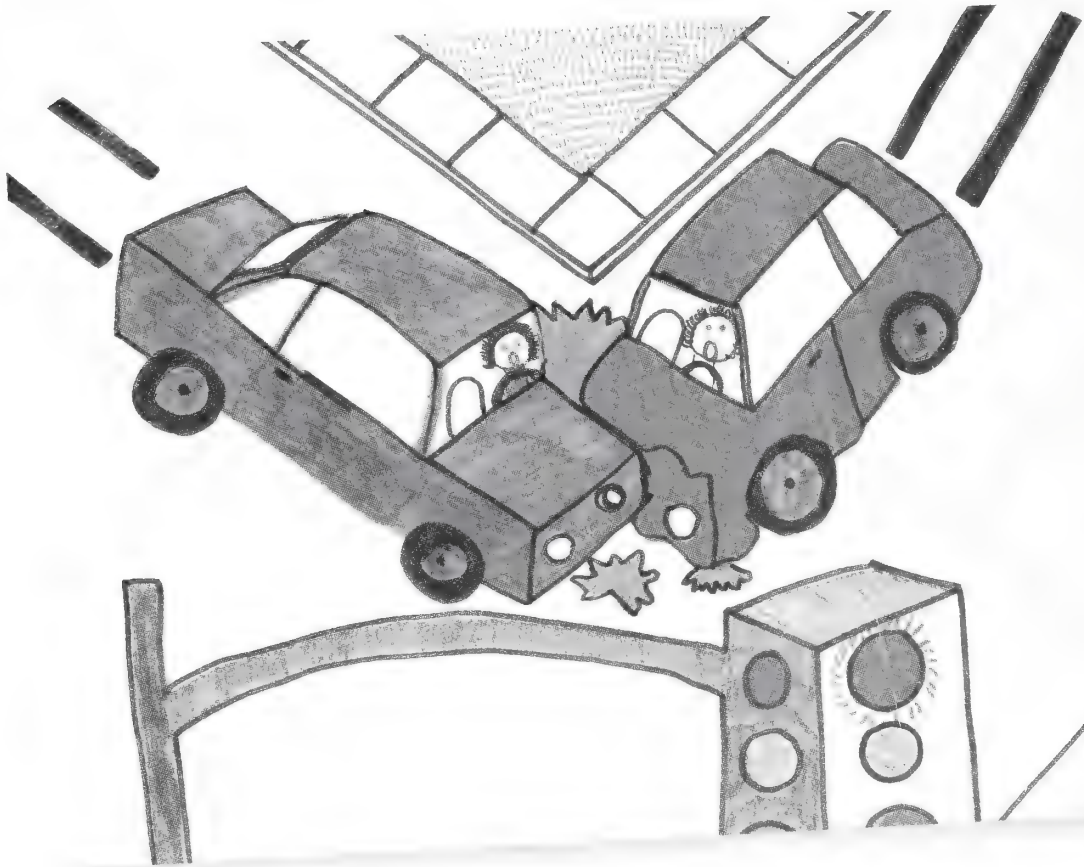
.....



GOLDEN EAGLE™
Insurance Corporation

PARTNER AGENTS

www.goldeneaglecorp.com



Ask a child about running a red light,
and the answer will stop you in your tracks.





Don't Put Your Baby's Health On The Line.

It's a thin line between having a healthy baby and a baby that's sick. Don't take the risk. If you're pregnant— or even think you are — getting prenatal care early is the most important step you can take. Call 1-800-311-2229. We'll put you in touch with the many services available to you. The call is free and it's completely confidential.

Get Prenatal Care Early • Call 1-800-311-2229 • Confidential

Take Care of Yourself So You Can Take Care of Your Baby.



WHICH ONE OF THESE CREATURES CAN EAT UP A WHOLE FOREST OVERNIGHT?



Humans are the only creatures that can start a forest fire. So don't forget Smokey's rules. Drown your campfire with water, then add more water while you stir the area with a shovel or stick. Don't leave until the ground feels cold. The other creatures will thank you.

**ONLY YOU CAN
PREVENT FOREST FIRES.**



Visit Smokey's web site at www.smokeybear.com



D BY ELLEN LICKING



ING REAL ING INTO JAL REALITY

1, WORKING THREE-
tionally on a computer
en mainly a two-sensa-
perience—images and
Only a few laboratory
s enable users to feel
happening on the
—and then from just a
range of straight-line
ents, such as forward
kward.

researchers at
ie Mellon University's
s Institute have devel-
prototype device that
s with six degrees of
1, allowing more com-
movements. To pro-
richer feel and a more
experience, CMU re-
ers Peter J. Berkelman
ph L. Hollis turned to
e levitation. The sys-
ey component—some-
ke a car's transmis-
sats in magnetic fields.
bered by the mechani-
ys and gears used in
ensory-feedback sys-
ollis' device can handle
mplex movements and
ore sensitively.

the control stick jut-
m the top of a desk-
box holding the levi-
system, a user can
virtual peg into a vir-
e and feel simulated
s well as friction, as it
The technology could
ineers in designing
s. Hollis believes it
especially valuable in
surgeons—letting
perience how it feels
into a body with a

Peter Galuszka

A CANCER DRUG WITHOUT CRIPPLING SIDE EFFECTS?

CHEMOTHERAPY AND RADI-
ation are commonly used to
treat aggressive cancers
despite their debilitating side
effects. But there is growing
evidence that a drug called
Maxamine—when used in
combination with immune-
system-boosting chemicals
called cytokines—can dou-
ble the survival time of
patients with acute myel-
ogenous leukemia (AML) and
malignant melanoma with-
out most of the crippling
side effects. In fact, most of
the patients were well
enough to live at home dur-
ing treatment, and many con-
tinued working. The drug,
which is made by San Diego-
based Maxim Pharmaceu-
ticals Inc., is currently being
used in 12 different countries
to treat more than 800
patients in three separate
phase III clinical trials. The

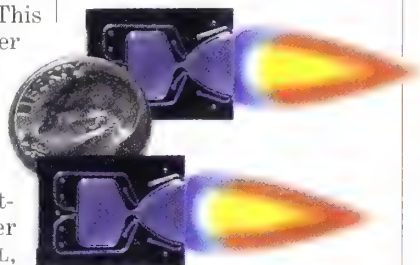
company expects to file for
Food & Drug Administration
approval in mid-2000.

The drug mimics the ac-
tion of the naturally occur-
ring molecule histamine, and
it works by enhancing the
body's own immune response.
Cancer cells usually release
free radicals that destroy cer-
tain critical white blood cells
of the immune system. But
Maxamine blocks the produc-
tion and release of these nox-
ious compounds, thereby pro-
tecting the body's immune
cells from damage. This
means the cells are better
able to mount a sustained
attack on the tumor.

Because Maxamine
appears to generally
boost immune function, it
could be an effective treat-
ment for cancers other
than melanoma and AML,
as well as a remedy for vi-
ral diseases. Maxim Pharma-
ceuticals has also partnered
with Amgen Inc. to develop
Maxamine as a treatment for
Hepatitis C. □

WEE ROCKETS THAT PACK A BIG WALLOP

ON THE PRINCIPLE THAT GOOD
things come in small pack-
ages, three engineers are
building a rocket engine
about the size of a dime that
can generate at least 20
times as much thrust per
unit weight as the space
shuttle's main engine.
Researchers Adam London,
Alan H.



Epstein,
and Jack L. Kerrebrock, all
from the Gas Turbine Labo-
ratory of Massachusetts
Institute of Technology, say
that when a hundred of these
ingenious microrockets are
hooked together to create a
palm-sized engine, they
should be powerful enough to
launch a 50-pound vehicle
into space.

A prototype of the MIT
team's tiny rockets, to be
tested this spring, will be
propelled by a mixture of
gaseous methane and oxygen.
But the final version, esti-
mated to take three to five
years to build, will run on liq-
uid fuel. To accomplish this,
the researchers are creating a
miniature turbo-pump.

One advantage of the mi-
cro-rockets, the MIT re-
searchers claim, is that they
will cut down the amount of
dead weight that's carried
into space by at least half—
which should considerably re-
duce the cost of launches.
Someday soon, hundreds of
the tiny rockets could be uti-
lized to launch and maintain
the positions of small scien-
tific and communications
satellites. Nellie Andreeva

ALL THIS FROM JUST AN OIL CHANGE

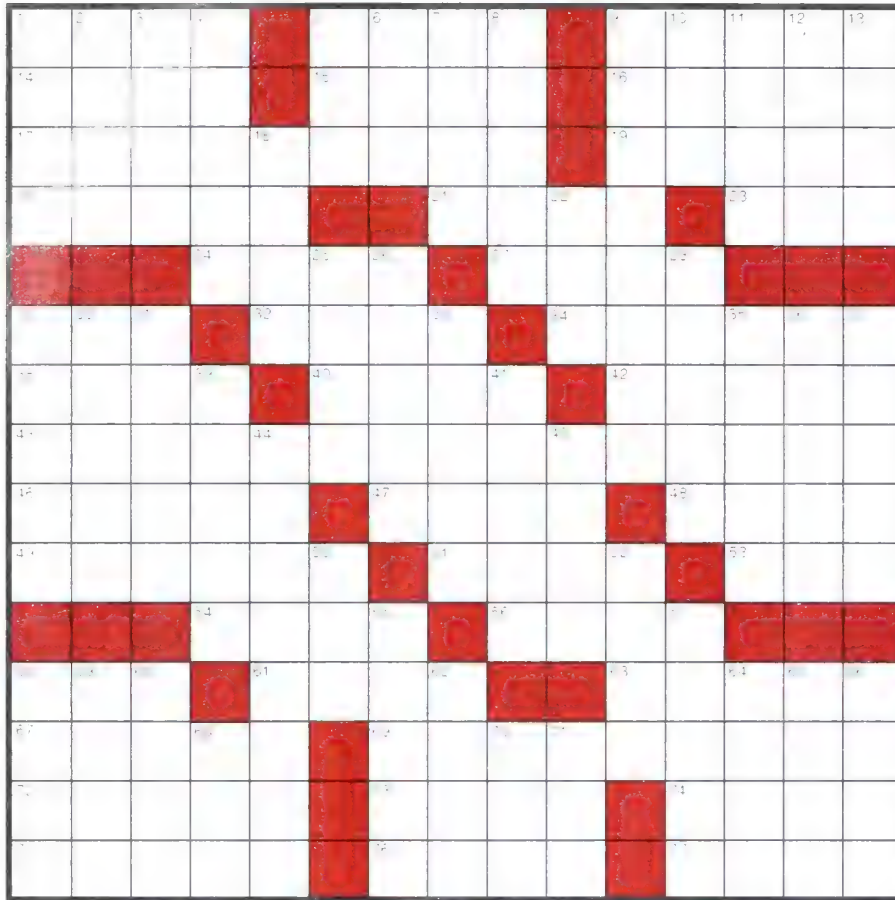
WHEN WORLDWIDE PETROMOLY INC., A HOUSTON-BASED
manufacturing company, developed a motor oil that sig-
nificantly improved engine performance and reduced
noxious emissions, it thought the oil seemed too good to
be true. So, the company asked the Environmental Pro-
tection Agency (EPA) to run its own tests. The results of
the EPA's 11-month investigation are back, and they're
remarkable. Engines primed for just five minutes with
PetroMoly consistently showed a 3% improvement in
highway fuel economy and an 8% decrease in smog pro-
duction. No extra gadgets were required—just the oil
change.

The company uses a patented technology to produce its
blended motor oil, which contains soluble molecules of the
heavy metal molybdenum disulfide (moly). In this case,
the heavy metal acts as a lubricant, filling the tiny hol-
lows in the surfaces of the engine's pistons, rings, and
walls. Because metal-to-metal contact is largely eliminat-
ed, there is less overall wear and tear on the engine. An
added benefit is PetroMoly's stability—it's good for 15,000
miles, five times longer than the 3,000-mile guarantee giv-
en conventional motor oils.

One downside is PetroMoly's price—it costs almost twice
as much as other motor oils. But Lance Rosmarin, World-
wide PetroMoly's president, claims that because it extends
the life of the engine, it pays for itself in the end. □

Mixing Business with Pleasure by Lincoln

Puzzle #8



ACROSS

1. Salary limits
5. Mattel dolls
9. Balance-sheet entry
14. Korea's continent
15. College club
16. Likely to succeed
17. AOL CEO
19. Extra dividend
20. Keeps out of sight
21. Manuscript marking
23. Wrap things up
24. Top of skyscraper
27. Cash in, Common
29. TWA's HQ: Abbr.

32. Bluenose
34. Leaves the straight and narrow
38. Café addition
40. Makes a mistake
42. Where Bhopal is
43. Goldman Sachs economics guru
46. Ski spot
47. Scale-weight allowance
48. Related
49. Legalese adverb
51. Pull apart
53. S&L offerings
54. Kinds of cameras: Abbr.
56. Piccadilly Circus statue
58. Talk too much

61. Tiny amount
63. IBM motto
67. Birdlike
69. Not quite newly issued, as a bond
72. Nouveau ___
73. Mr. Icahn
74. K-P connector
75. African capital
76. Former McDonald's head
77. Unenviable position

DOWN

1. Part of a bear's portfolio
2. Italian wine region

3. The ___ Piper
4. S&L customer
5. TRICON division
6. Century 21 competitor
7. SEC-supervised organization
8. Expensive
9. Part of GDP
10. Compass reading
11. Ill temper
12. Clickable illustration
13. Look after
18. Employee perk: Abbr.
22. "___ Misérables"
25. Nabisco brand
26. Envious position
28. Whether ___
29. Reduce drastically
30. Conference-room need
31. Key British interest rate
33. The ___ Atlantic & Pacific Tea Company
35. Kind of committee
36. Financial-page stat
37. Time, metaphorically
39. Works at a keyboard
41. Shopper's jaunt
44. Boeing product
45. Listen to
50. Gold, in Granada
52. Type of IRA
55. IPO offering
57. Pseudo-corporation
58. Fabric unit
59. Former Reebok subsidiary
60. "___ derrière" (see page 4)
62. From a distance
64. "___ La Douce"
65. Convent group
66. Double Windsor, for o
68. Cry of discovery
70. To and ___
71. RN's offering: Abbr.

For answers to this puzzle:

Turn to page **160** in this week's issue of Business Week or visit Mixing Business with Pleasure by Lincoln on www.businessweek.com (URL: www.businessweek.com/adsection/puzzlesbylincoln/index.htm)

Puzzle created by: Stanley Newman.



1-800-446-8888

Kick derrière.



the most powerful luxury SUV on the continent. It pampers seven passengers in three rows of leather-trimmed seats. While it tows up to 7,000 lbs. Over a mountain. With an attitude. Call 1 800 446-8888, visit www.lincolnvehicles.com or see an authorized Lincoln Navigator dealer.

Lincoln Navigator. What a luxury  **should be.**

COLLECTIBLES

BASEBALL'S BIGGEST AUCTION EVER

Barry Halper's eccentric treasure trove will fetch millions



COBB CHEWER: Ty's dentures could be worth \$8,300 to \$500

Baseball legend Ty Cobb is smiling somewhere—but there are a few gaps in his grin. Cobb went to the great ballfield in the sky in 1961, leaving behind a slew of big-league records and one set of yellowed false teeth. His dentures eventually found their way to Barry Halper, a New Jersey collector who is to baseball memorabilia what Cobb was to center field. “My first reaction was: ‘What am I going to do with a pair of dentures?’” recalls the 59-year-old Halper.

Now he knows. Cobb's teeth, and the rest of Halper's amazing collection, which includes such treasures as a ticket to the first World Series in 1903 and a lock of Babe Ruth's hair, are scheduled to be sold sometime this summer in live and online auctions run by Sotheby's in New York. It may not have the snob appeal of the Jackie O auction, but Halper's collection is expected to attract a crowd as large and boisterous as Opening Day at Yankee Stadium.

HOLY GRAIL “There is going to be a huge turnout of really passionate people,” says David N. Redden, a Sotheby's executive vice-president. “I had a call from a partner in a well-known brokerage firm who's



ERROR: The Red Sox' Carl Yastrzemski refused this misspelled award

very interested. I said, ‘The Halper Collection is the Holy Grail, isn't it?’ He said, ‘You hit the grail on the head.’”

Halper's collection contains more than 100,000 items, including bats, uniforms, trading cards, and photos. While the live auctions are expected to take only a week or two, preparing for the event has been a Ruthian job. Since last November, Sotheby's has been cataloging the collection, which occupies almost an entire floor of a Manhattan warehouse, and the shelves are filling fast.

Not far from Mickey Mantle's first professional contract and signing-bonus check—for \$1,150—is Lou Gehrig's last mitt, a leather oval that looks like a giant oatmeal cookie. Paging through one

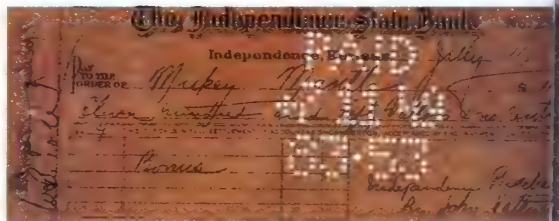


BABE BALL: A Ruth-signed horse from the '30s, worth \$15,000-\$20,000

of Halper's many albums recently, orabilia consultant Rob Lifson, across a questionnaire filled out by young Jackie Robinson. On it, Lifson writes of his dream to be the African-American ballplayer in the leagues. “I looked at this and got chills,” says Lifson, who is helping to appraise items for Sotheby's.

The total value of Halper's collection is the subject of intense guesswork. Estimates range from \$10 million to more than three times that. “We'll only know when it sells,” says Lifson. Last year, Major League Baseball paid Halper \$7.5 million for items, including Mantle's rookie uniform and the contract selling Ruth to the Yankees after the 1919 season. The items will be displayed at the National Baseball Hall of Fame in Cooperstown, N.Y., in a “Barry Halper Gallery” opening next fall. The Hall of Fame will discuss the purchase price.

Although the market for some baseball collectibles flattened in the 1990s, demand for unusual items remains strong. On Jan. 13, the bat



MANTLE PIECE: The Mick's \$1,150 signing bonus, 1951

Mark McGwire socked into the last September for his 70th home run sold at auction for \$2.8 million. It's not just baseballs that attract big money. In November, an auction in London netted a record \$4.6 million, in



Business Intelligence Specialist

Name: John Hoh

Job Description: Work with companies to identify product sales patterns and use that data as a tool to improve business.

Experience: Designed a point-of-sale data warehouse for Panasonic, helping them analyze buying patterns in order to reduce back orders and excess inventory.

Pet Peeve: Rain checks.

Phone: 1 800 IBM 7777, ask for Services

Web: www.ibm.com/services/info

IBM Global Services

People who think. People who do. People who get it.

 business people



UNIQUE: The only autographed card of early Cleveland star Nap Lajoie

\$61,034 for a bat used by Gehrig and \$41,745 for a 1941 Joe DiMaggio baseball card. "The prices being paid for some of these items are astounding. We're all kind of wondering where it's going to end," notes Tom Mortenson, editor of *Sports Collectors Digest*.

Halper's collection figures to feed the buying frenzy. Until late last year, many of the items had been stored in his Livingston (N.J.) home, where they were seen only by Halper's family and guests. That includes dozens of star ballplayers from Ted Williams to Reggie Jackson to Roger Clemens. One of Halper's closest player friends is DiMaggio, 84. Among the unusual items up for sale is a coffee table with 56 balls signed by DiMaggio—signifying the Yankee Clipper's record 56-game hitting streak—displayed beneath a glass top.

Halper, who owns about 1% of the Yanks, started collecting when he was 8. The next summer, his father took him to Yankee Stadium on the day Ruth's No. 3 was retired. Before the game, he got the Babe to autograph a ball, the first of 200 Ruth-signed horsehides in his collection.

These days, Halper is known as much for his efforts to authenticate his items as for the items themselves. In the 1970s, he acquired a uniform supposedly worn by Cincinnati's Ewell Blackwell in a 1947 game in which Blackwell tossed a no-hitter. Halper brought the uniform to a memorabilia show to have Blackwell confirm that it had been his. As Halper remembers, Blackwell lifted the right sleeve and "smelled under the armpit. Then he looked up and said, 'Yep, this is mine.'"

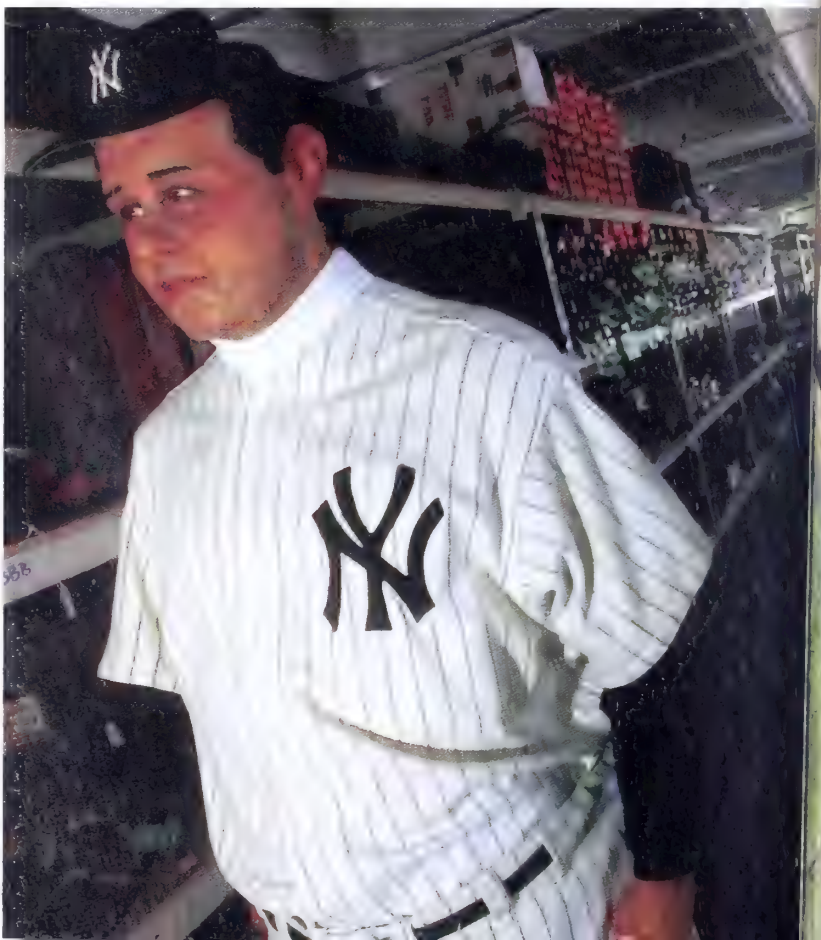
By Mark Hyman in New York



THE OTHER YANKEES: A 1940s pennant for the Negro League team



IRON HORSE MITT: Gehrig's last glove may bring in \$35,000 to \$50,000



SPOOKY: A life-size Babe in was from Madame Tussaud's. \$3,000 to \$5,000



Announcing

The Next Bottom Line

AGENDA FOR THE 21ST CENTURY

SOLVING SOCIAL AND ENVIRONMENTAL CHALLENGES is no longer optional for companies or society. These global challenges demand ingenuity and resolute efforts to sustain economic progress while preserving the vitality of our communities and the integrity of the Earth's natural systems.

Business Week and World Resources Institute (WRI) are proud to announce a definitive special advertising section, *The Next Bottom Line*. The section will feature essays by CEOs of major corporations and insightful articles by WRI addressing how business can balance new social, environmental, and financial expectations and still provide shareholder/stakeholder value.

Beyond *Business Week's* vast global coverage:

- The internationally renowned *Tomorrow – Global Environment Business Magazine* will print the entire section in its May/June issue.
- The National Town Meeting for a Sustainable America will widely distribute reprints of the section (May 2-5, 1999).
- WRI will introduce the reprinted section to distinguished business schools worldwide.

We invite you to be our corporate partners as we all become stewards of a new balance sheet – a “win-win” for the entire planet.

Issue Date: May 3, 1999 Worldwide Edition

Advertising Closing Date: March 22

For more information, contact your *Business Week* Account Manager or Sue Swartzman, Special Projects Consultant at 212/996-7332.

CAMPAIGNS

2,000 REASONS TO HATE THE MILLENNIUM

Marketers are hyping it to a froth—and they've only just begun

When Chicago restaurateur Sonny Dervishi opened his newest eatery a little more than a year ago, he called it Millennium Steakhouse. He can't say for sure if the name attracts business. In fact, it's a bit of a hassle sometimes. Dervishi often must redirect phone callers looking for one of the many other Chicago-area businesses using millennium titles. Even so, Dervishi couldn't resist the marketing gimmick. "It's a catchy name," he says. "It's talked about so much."

That's the understatement of, well, the millennium. It is one of the ironies of business that marketers—who are, after all, paid to make their products stand out—tend to move in herds. Never mind that fin-de-siècle fever is based on nothing but a calendar quirk. Never mind that consumers show clear signs of fatigue. "I'm tired of hearing about the millennium already," says Paulette Karras, a baker in Mesa, Ariz. "In about six months, I'll be sick of it."

Despite that kind of millennium overload, marketers can't seem to resist associating their products with next year's calendar change. In the first two months of 1999 alone, millennium references have cropped up in all kinds of ads, from Merrill Lynch & Co.'s brokerage services to Dodge's Intrepid.

Korbel Champagne Cellars Inc. will spend \$25 million both this year and next to promote its bubbly. "They think they can slap millennium on it and make it stick," says trends consultant Gerald Celente, publisher of *The Trends Journal*, based in Rhinebeck, N.Y. "It will be an overhyped fad."

UP FOR GRABS. Still, for most marketers, there's no holding back. McDonald's Corp. will launch millennium-themed TV ads and in-store promotions in the first quarter of this year. R.J. Milano, vice-president for marketing at McDonald's USA, won't release details of the blitz, but promises only "no McMillennium."



THE MARKETING MADNESS BEGINS

KORBEL The champagne maker uncorked bigger ad budgets in December, as it prepared for yearlong bubbly-of-the-millennium push.

MCDONALD'S Millennium-themed burger ads will appear as early as first quarter, '99, officials say. Only promise: No McMillennium.

NICKELODEON The kids' channel launches a *Nickellenium* series, programming with a millennium twist.

Others are showing less restraint. Nickelodeon plans to run a series of youth-oriented news shows and documentaries called *Nickellenium*. Warner Bros. Inc. hopes to cash in selling merchandise bearing its Mil-Looney-Um logo. Miller Brewing Co. is pondering the launch of a Millerennium campaign.

What makes the millennium more overdone than your average is that any marketer, big or small, can in. Unlike the Olympic Games or Super Bowl, where the right to use official hype costs big bucks, the millennium is a free-for-all, drawing in small fry as well as the big corporations. Homebuilder Larry Dubbed his new development in Scottsdale, Ariz., "Home for the millennium." Budd Goldman, a clockmaker in Mineola, N.Y., says he has sold more than 1 million millennium clocks that hit zero at the stroke of midnight, Dec. 31.

RIGHT YEAR? Even as they pile on the millennial hypesters face risks. Saturation is the most obvious. But there's also the dreaded Y2K bug. If serious computer problems hit in 2000, ad campaigns celebrating the era will look foolish. Those problems have a handful of marketers sitting the millennium out. Many airlines, for example, mindful of alarmists who say planes will cause planes to fall out of the sky, are staying away from the theme. Coca-Cola Co. is taking a pass. Coke officials say the topic is so oversubscribed there's no way for a brand to stand out. Carnival Corp. reached the conclusion. "The challenge for millennium marketers is going to be getting lost in the shuffle," says Dickenson, president of the Carnival Cruise Lines Div.

But those holdouts will provide consumer little respite. For each standing aside, it seems a dozen are in full force. And perhaps worst for millennium-weary consumers, the hoopla won't end at the stroke of midnight next New Year's Eve. Many companies are subscribing to the idea that the century does not officially end until 2001. M&M/Mars, a division of Mars Inc., which already runs millennium-themed ads, has more planned but won't discuss them until next year. "We're waiting for the real millennium," a spokeswoman says. One consolation should get 1,000 years of respite at the next bout of millennium fever.

By Dennis Berman in New York
with Ann Therese Palmer in Chicago

ONE DAY WHILE FINDING ENERGY,
WE FOUND A WAY TO GET
WATER TO WATERMELONS.



HOW TEXACO TURNS WASTE WATER INTO IRRIGATION FOR THIRSTY CROPS.

Oil and water go together. When you find one, you find the other. Which means we end up finding millions of gallons of water every day.

But we didn't want to waste it. So we came up with an innovative way to use it. We take water we don't need from oil fields and channel it to farms all over the California Central Valley.

Where water is as precious to farmers as oil is to us. And now, green acres of farmland are feeding people coast to coast, everything from apples to oranges, to yes, you guessed it, watermelons.

It's one more way our relentless pursuit of energy keeps the world running. Looks like that water made quite a splash.



A WORLD OF ENERGY.

Corporate Gifts

Logo Tattoos!



1000 Temporary Tattoos with your Logo.
Just \$189.00!!
plus \$10.00 S&H (CA add 7.25% sales tax)
Customized! Full Color! 2" x 2"

Calico

3000 Alamo Drive, Ste 201 • Vacaville, CA 95687
Tel: 707/448-7072 • Fax: 707/448-8273

Men's Footwear

MEN'S WIDE SHOES

EEE-EEEEEE, SIZES 5-13
FREE catalog • High quality • 160 styles



HITCHCOCK SHOES, INC.
Dept. 55B Hingham, MA 02043
1-800-992-WIDE www.wideshoes.com

Trademarks

TRADEMARKS

- Trademark by Phone!
- Protect your logo, slogan or business name
- Attorney owned/operated

800-67-TRADEMARK

Vanguard Investors

FREE Special Report for Vanguard Investors

Lower your costs even more. Get into any fund Vanguard has closed. Sidestep minimums. And more! You've made a wise choice to invest with Vanguard, now get an "extra edge" from Dan Wiener, the nation's #1 Vanguard expert. Call for your FREE report today!
800-211-6359 (3TR27)

Business Services

RESEARCH REPORTS

20,000 ACADEMIC TOPICS AVAILABLE!
Send \$2 for the 290 page catalog
11322 Idaho Ave., #206BF
Los Angeles, CA 90025
TOLL FREE HOTLINE: 800-351-0222
http://www.research-assistance.com

INCORPORATE

- FREE Information
- All U.S. States and Offshore
- Attorney owned and operated

www.corpreations.com

1-800-672-9110

TRADEMARK

CALL NOW SAVE 30% to 50%

BUSINESS AND COMPUTER CHECKS

Ordering is easy!
Just pick up the phone and CALL
DESIGNER CHECKS

1-800-239-4087 ext. 29

Fax 1-800-774-1118

www.designerchecks.com

Have your checks & deposit orders in front of you in web maintained card file on fax or e-mail the check & deposit order & we will take care of your order.

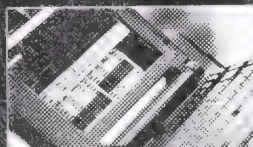
100% Satisfaction Guaranteed

Investment Services

Trade Online w/Signal

the real-time money-making machine!

- Stock
- Futures
- Options
- Streaming Internet
- Delivery
- Free Nasdaq Level II
- Forex
- News
- Charting
- Historical Data
- Pager/cell phone alerts



Sign-up online today at:
www.dbc.com/bw
or call 888.200.1016 x140L

Upscale Household Services



Andrew & Jennifer LLC
Estate Managers
Household Managers
Landscape Gardeners
Chefs • Butlers/Housemen
Couples • Personal Assistants
1-800-800-6757

Publishing Services

Publish Your Book

75-year tradition of quality. Subsidy book publisher offers publishing services for books of all types. For free *Author's Guide* write Dorra- BW, 643 Smithfield, Pittsburgh, PA or call 1-800-695-9599

Business For Sale

UNIQUE ANTIQUE 1954 WORKING GRAIN ELEVATOR

All wood construction on 3/4 acre in hunting/fishing haven in western Montana. Only \$410,000.00. Serious Inquiries Only. No agents please. Call

406-826-5775

Franchising

ARE YOU SITTING ON A GOLD MINE?

Franchise it.

CALL 1-800-372-6244
Talk to us first. Because nobody has franchised more businesses than Francorp

The leader in franchise development and consulting. Worldwide

francorp BW

Shred-it

To Success

It's time you were boss...
let Shred-it show you how.

Shred-it is the world's leading and the only shredding company that has the ability to shred confidential documents.

Shred-it shredding confidential documents for over 45,000 companies in North America

Shred-it offers a proven franchise system with a low start-up investment across North America

Shred-it provides a ground floor opportunity with a low start-up investment and limited competition for individuals who are entrepreneurial and sales oriented

Shred-it provides a comprehensive program, full training and support with large, exclusive territories

Excellent territories available world wide

Call Doug Warren
(905) 855-2856 Ext. 237
E-mail: doug@shredit.com

Business Opportunities

MAKE MONEY AS BUSINESS FINANCE CONSULTANT

Arrange Business Loans and Liquidate Assets from \$1,000 to \$10 million. No experience necessary. Work directly with National Lenders. Unlimited earnings potential. Residual income.
FREE 45 minute video seminar and information packet
CALL 1-800-336-39
The Loan Consultants, Inc.

OFFSHORE

Companies (800) 551-2141
Banking
Credit Cards
Privacy
For as little as \$75,000
(800) 551-2141 Universal
Visa/MC/Amex CORPORATE SERVICES
www.uscservice.com

Business Software

MAIL ORDERS • WEB OR PHONE ORDERS

Order in confidence, processing, shipping, and tracking. We have the most complete selection of software, hardware, and peripherals. We are the World's #1 in software, hardware, and peripherals. Visit us at www.dvdc.com

Call 1-800-858-3666 or visit www.dvdc.com

MailOrderManage

Venture Capital

Corporate Investors Seeking To Invest

in emerging companies in media, consumer products and branded services

Please fax summary description to 203-328-2394 or e-mail bussplan@ix.netcom.com

Financial Services

\$7,500 to \$95,000
www.instant-approval.com

6.00% to 12.00%
No Credit Check - 72 hr Svc. - EZ
100K to 5M. 5.5% - Borrowing Made
with compensating balance dep
1-888-745-6752 ext.

FOR AD RATES AND INFORMATION
PHONE: (312) 464-0500
FAX: (312) 464-0512 OR WRITE:

BusinessWeek

MARKETPLACE

BUSINESS WEEK MARKETPLACE
500 NORTH MICHIGAN AVENUE, SUITE 2010
CHICAGO, IL 60611

Education/Instruction

ONTICELLO UNIVERSITY
Competition's MBA & JD
Programs. Accredited
r, Master, Bachelor.
monticello.edu
913-661-9414
0-405-7935

BY DISTANCE LEARNING
University offers accredited MBA, Pro
fessional MAI needed. Chosen by Economist
it as one of world's best MBA programs
UNIVERSITY (800) MBA-0707
an Distributor Ask for ext. 20
n St. Suite 2, El Cerrito, CA 94530
te FaxBack literature; from your
s phone, call (510) 486-8900.

AWARD WINNING DISTANCE EDUCATION

MBA & MS Degrees
Executive Education



800.441.4746

www.isimu.edu

Accredited by the
Distance Education Training Council

Education/Instruction

Winning Strategy You to the Next Level

an study to help
e location
vise learning
Management
Centre
in the
nd knowledge
e world-class faculty at Leicester
Management Centre - a world leader
distance learning.

required
ort center
rence & qualifications considered
the Association of Business Schools
with the Association of MBAs
der Royal Charter

ormation and a free brochure,
10-874-5844 or e-mail
com visit the university's
www.le.ac.uk/lmc

Rdi

COM Equipment

CD COPIER

\$1695
ss by Princeton Disc
0-426-0247

ncial Services

00 to \$500,000
xpand your business
usiness loan that is
nteed by the Govt.
usiness-capital.org
15-6756 Ext 8006

Education/Instruction

GET THE EDGE!



COLUMBIA
BUSINESS
SCHOOL

Columbia Executive Education
Learning that powers performance.™

UPCOMING COURSES

Finance and Accounting for the Nonfinancial Executive
(Mar 21 - 26) (Jun 13 - 18)

The Transition to General Management
(Apr 18 - 30) (Oct 31 - Nov 12)

Emerging Leader Development Program
(Mar 14 - 19) (Dec 12 - 17)

For more information on these and other programs:
Call 212-854-3395 ext. 64

Visit our web site at: www.columbia.edu/cu/business/execed

Aviation/Fractional Ownership



FLEXJET

It's *your* TIME.
INVEST IT *wisely*.

Our Flexjet Fractional Ownership program lets you
buy a piece of a Learjet or Challenger business
jet for as little as \$175,000*. So you can invest
the time you currently spend waiting to fly in
something a little more profitable... like taking
care of business.

To learn more, call **1-800-FLEXJET** (353-9538).
We're ready when you are.

**BOMBARDIER
AEROSPACE**

* Estimated annual after-tax cost of ownership
(500 occupied hours over five years) in a Learjet 31A. Conditions apply.



People Technology

be a part of it, as it happens

live tv

at
TELECOM 99
INTERACTIVE 99

Controversial
entertainment

live tv PRODUCED BY

*Official Media
Services Provider*

CMP

tele.com

**Data
Communications**

In cooperation with

BusinessWeek

live tv SPONSORED BY

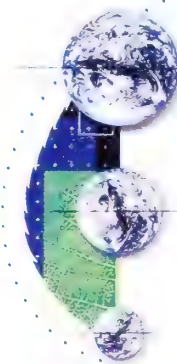
ERICSSON 

COMPAQ

Three further sponsors of live tv to be announced.
For information on advertising and sponsorship opportunities on TELECOM 99 + INTERACTIVE 99 live tv call Michael Wolf on Tel +44 (0) 1628 502930.

ORGANISER

 **TELECOM**



 **TELECOM 99**

Geneva, 10-17 October

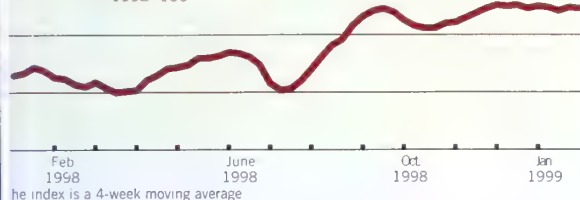
Inter@ctive 99

PRODUCTION INDEX

Change from last week: -0.1%
Change from last year: 3.9%

PRODUCTION INDEX

Jan. 30=142.3
1992=100



The index is a 4-week moving average.
The production index dipped in the week ended Jan. 30. The unaveraged index also fell, from 143.0 to 142.9. After seasonal adjustment, coal production dropped 2.1%, with the largest declines in the states of Alabama and Virginia. Output of autos, trucks, steel, oil, and rail freight were also down. Only electric-power output and lumber posted gains. The monthly index in January was 142.3, down 0.1% from December's index of 142.4.

Production index copyright 1999 by The McGraw-Hill Companies.

PRICING INDICATORS

	LATEST WEEK	WEEK AGO	YEARLY % CHG
STOCK PRICES (2/5) S&P 500	1239.40	1279.64	22.4
GOVERNMENT BOND YIELD, Aaa (2/5)	6.40%	6.16%	-4.3
MONEY SUPPLY, M2 (1/25) billions	\$4,434.0	\$4,435.6r	8.7
UNEMPLOYMENT CLAIMS, UNEMPLOYMENT (1/29) thous.	292	301r	-3.9
MORTGAGE APPLICATIONS, PURCHASE (2/5)	253.5	272.9	1.6
MORTGAGE APPLICATIONS, REFINANCE (2/5)	1,654.0	1,741.7	-18.5

Sources: Standard & Poor's, Moody's, Federal Reserve, Labor Dept., Mortgage News Service (Index: March 16, 1990=100)

INTEREST RATES

	LATEST WEEK	WEEK AGO	YEAR AGO
BANK OF AMERICA FUNDS (2/9)	4.73%	4.56%	5.44%
COMMERCIAL PAPER (2/9) 3-month	4.79	4.76	5.42
SAVING DEPOSITS OF DEPOSIT (2/10) 3-month	4.89	4.88	5.55
MORTGAGE (2/5) 30-year	6.86	6.84	7.16
FIXED RATE MORTGAGE (2/5) one-year	5.69	5.68	5.70
LIBOR (2/5)	7.75	7.75	8.50

Sources: Federal Reserve, HSH Associates, Bloomberg Financial Markets

Data in the production indicators are seasonally adjusted in computing the BW index (chart); other components (estimated and not listed) include machinery and defense equipment. 1=Western Wood Products Assn. 2=Southern Forest Products Assn. 3=Free market value NA=Not available r=revised NM=Not meaningful

THE WEEK AHEAD

MARKETING STARTS

Monday, Feb. 17, 8:30 a.m. EST ▶ House starts probably stood at an annual rate of 1.6 million in January, says the median of economists surveyed by Standard & Poor's MMS, a unit of The McGraw-Hill Companies. The projected number is down slightly from the 1.72 million started in December. For all of construction was begun on 1.62 million, the most in 11 years.

INDUSTRIAL PRODUCTION

Monday, Feb. 17, 9:15 a.m. EST ▶ Industrial output likely rose just 0.1% in January following a 0.2% gain in December. Electricity probably continued to rebound after

unseasonably warm weather pushed down demand in October and November. The operating rate for all industry probably averaged 80.6%, from 80.9% in December.

PRODUCER PRICE INDEX

Thursday, Feb. 18, 8:30 a.m. EST ▶ Producer prices for all finished goods likely increased 0.1% in January, after rising 0.4% in December. Excluding food and energy, core prices probably also edged up 0.1% after jumping 1% in December, the result of a 30.7% spike in cigarette prices.

CONSUMER PRICE INDEX

Friday, Feb. 19, 8:30 a.m. EST ▶ Consumer prices for all goods and services probably

rose 0.2% in January following a 0.1% gain in December, says the S&P MMS median forecast. Falling gasoline prices offset increases for other items, especially tobacco. Excluding food and energy, core consumer prices probably increased 0.2% in January, after rising 0.3% in December.

INTERNATIONAL TRADE

Friday, Feb. 19, 8:30 a.m. EST ▶ The U.S. foreign trade deficit for goods and services probably widened in December, to \$16 billion, from \$15.5 billion in November. Exports in December are expected to have regained a bit after falling 2% in November. Imports, up 0.4% in November, likely continued to rise.

PRODUCTION INDICATORS

	LATEST WEEK	WEEK AGO	YEARLY % CHG
STEEL (2/6) thous. of net tons	1,959	2,011#	-10.1
AUTOS (2/6) units	102,803	123,660r#	-8.4
TRUCKS (2/6) units	147,991	153,868r#	9.2
ELECTRIC POWER (2/6) millions of kilowatt-hrs.	65,044	64,258#	0.2
CRUDE-OIL REFINING (2/6) thous. of bbl./day	14,412	14,223#	1.8
COAL (1/30) thous. of net tons	22,452#	22,005	9.7
LUMBER (1/30) millions of ft.	550.3#	502.0	15.2
RAIL FREIGHT (1/30) billions of ton-miles	27.1#	26.6	5.0

Sources: American Iron & Steel Institute, Ward's Automotive Reports, Edison Electric Institute, American Petroleum Institute, Energy Dept., WPPA1, SFP2, Association of American Railroads

PRICES

	LATEST WEEK	WEEK AGO	YEARLY % CHG
GOLD (2/10) \$/troy oz.	288.200	286.850	-3.4
STEEL SCRAP (2/9) #1 heavy, \$/ton	84.00	84.00	-40.2
COPPER (2/5) ¢/lb.	68.6	68.0	-14.4
ALUMINUM (2/5) ¢/lb.	58.8	59.0	-19.2
COTTON (2/5) strict low middling 1-1/16 in., ¢/lb.	58.43	57.76	-8.2
OIL (2/9) \$/bbl.	11.46	12.04	-29.2
CRB FOODSTUFFS (2/9) 1967=100	199.46	200.24	-11.5
CRB RAW INDUSTRIALS (2/9) 1967=100	262.40	262.14	-11.2

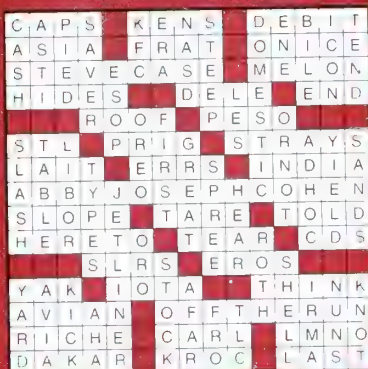
Sources: London Wednesday final setting, Chicago market, Metals Week, Memphis market, NYMEX, Commodity Research Bureau

FOREIGN EXCHANGE

	LATEST WEEK	WEEK AGO	YEAR AGO
BRAZILIAN REAL (2/10)	1.8950	1.7800	1.1261
BRITISH POUND (2/10)	1.63	1.64	1.63
CANADIAN DOLLAR (2/10)	1.49	1.51	1.44
EUROPEAN EURO (2/10)	1.1313	1.1345	NA
JAPANESE YEN (2/10)	114.13	112.34	123.53
KOREAN WON (2/10)	1180.0	1170.0	1600.0
MEXICAN PESO (2/10)	10.060	10.108	8.465
TRADE-WEIGHTED DOLLAR INDEX (2/10)	106.2	106.0	108.9

Sources: Major New York banks. Currencies expressed in units per U.S. dollar, except for British pound and European euro in dollars. Trade-weighted dollar via J.P. Morgan.

Mixing Business with Pleasure by Lincoln



Answers from puzzle #8
in Business Week.

LINCOLN
www.lincolncorrespondents.com

Index to Companies

This index gives the starting page for a story or feature with a significant reference to a company. Most subsidiaries are indexed under their own names. Companies listed only in tables are not included.

A

ABB Asea Brown Boveri 52
Advanced Micro Devices (AMD) 38
Advanced TelCom 12
Aeroquip 60
Aetna (AET) 12
Allianz 56, 108
Amazon.com (AMZN) 6, 30, 112, 126
American Airlines (AMR) 8, 40
American Standard (ASD) 47
America Online (AOL) 30, 45, 60, 76, 139
Ameritech (AIT) 47, 139
Amenrade (AMTD) 112
Amway 33
Apilo 60
Apple Computer (AAPL) 19
Astra 52
AT&T (T) 139

B

Baan 60
BancBoston Robertson Stephens (BKB) 138
Bankers Trust (BT) 12, 56
Barclays Global Investors 126
Barnes & Noble (BKS) 30, 112
Bay Networks (NT) 45
Bell Atlantic (BEL) 139
BMW 107, 108
Boeing (BA) 162
Boston Market (BOSTQ) 88
Bristol-Myers Squibb (BMY) 45
British Aerospace 107
BT Alex. Brown (BT) 40
BugNet 60, 69
BuildNET 45
Burger King (DEO) 84, 88

C

Callaway Golf (ELY) 8
Cambridge Group 112
Camden Financial 126
Carnival (CCL) 154
Cendant (CD) 92
Chevron (CHV) 35
China Telecom 48
Chipotle Mexican Grill 88
Cisco Systems (CSCO) 45
Citibank (C) 45
CKE Restaurants (CKR) 84
Clinical Laboratories 45
CNET (CNWK) 45
Coca-Cola (KO) 154
Commerzbank 56
Compaq Computer (CPQ) 19, 38, 76
Continental Airlines (CALA) 40
Cooper Tire & Rubber (CTB) 138
Credit Suisse First Boston 108, 112, 120
Crestpointe 36
CyberInvest 120
Cytoc (CYTC) 138

D

Dataquest 60
Davis Selected Advisers 84
Dell Computer (DELL) 38, 76
Deutsche Bank (DBK) 56, 112, 118
Diversified Pharmaceuticals 45

DLDirect (DLJ) 120

Domini Social Equity Fund 126
Dow Jones (DJ) 126
Dressner Bank (DRSDY) 56, 96, 108
Durst Organization 96

E

Earthlink 60
Eastman Kodak (EK) 45
eBay (EBAY) 30
Egghead (EGGS) 60
Electrolux 52
emachines 45
EntreMed 45
Ericsson (ERICY) 52
Ernst & Young 69, 134
E*Trade (EGRP) 111, 112, 118, 120, 126
Evensky Brown & Katz 134
Everen Securities 84
Express Scripts (ESRX) 45
Exxon (XON) 35

F

Fannie Mae 96
Farallon Communications 19
Federated Department Stores (FD) 60
Fidelity Investments 126, 162
Financial Research 126
Ford (F) 52, 107
Freddie Mac 96
FreePC.com 45
Frontier Corp. (FRO) 30

G

Gartner Group 60
Gateway (GTW) 60
General Electric (GE) 84, 111
General Motors (GM) 27, 30
Glaxo Wellcome (GLX) 45
Goldman Sachs 47
Gomez Advisors 120
GTE (GTE) 139

H

Hambrecht & Quist (HQ) 60, 112, 120
Hershey Foods (HSY) 18
Hewlett-Packard (HWP) 19, 45, 60, 76
Honda (HMC) 107
Hyatt Hotels & Resorts 47
Hyundai Group 48

I

Ibbotson Associates 134
I.C. Imports 36
ILX Systems 112
ING Baring Furan Selz 107
Institutional Shareholder Services 92
Intel (INTC) 38, 45, 60
International Data 12, 38
Investor 52

K

Kaiser Permanente 12, 142
Keefe Bruyette & Woods 45
Korbel Champagne 154
Kroll-O'Gara (KROG) 138

L

LabCorp 142
La Salsa 88

Lehman Brothers (LEH) 108, 126
Lens 36, 92
Linux 60, 69
Livent 92
Lycos (LCOS) 42

M

Major League Baseball 150
M&M/Mars 154
Mars 18
MasterCard 45
Maxim Pharmaceuticals (MMP) 147
McDonald Investments (KEY) 138
McDonald's (MCD) 84, 88, 154
McGraw-Hill (MHP) 159
MCI WorldCom (WCOM) 6
Merrill Lynch (MER) 42, 60, 69, 107, 111, 112, 126, 154
Meyer (Fred) 126
Microsoft (MSFT) 12, 60, 69, 76, 112, 126
Millennium Steakhouse 154
Miller Brewing 154
Miramar Systems 19
Mobil (MOB) 35
Morgan Grenfell (DMGL) 138
Morgan (J.P.) (JPM) 52, 112
Morgan Stanley Dean Witter (MWD) 60, 112, 120, 126, 132
Morningstar 134
Motorola (MOT) 45

N

National Commercial Bank 35
NationsBanc Montgomery Securities (BAC) 42
NBC (GE) 42
Netscape Communications (NSCP) 60, 76
Network Associates (NETA) 60
Network by Design 12
Nextel Communications (NXTL) 6
Nielsen (A.C.) (ART) 118
Nike (NKE) 45
Nikko Securities 96
Northern Telecom (NT) 45
Norwest Investment Management 134
Novell (NOVL) 60

O

Oracle (ORCL) 60
Osiris Software 19

P

PaineWebber (PWJ) 40, 60, 112, 120
Panbas 96
PE Biosystems 142
PetroMoly 147
Pfizer (PFE) 48
Phillips-Van Heusen (PVA) 6
Piper Jaffray 38
Pirelli 138
Polo Ralph Lauren (RL) 118
Procter & Gamble (PG) 48
ProFunds 126
Prudential Securities 112

Q

Quest Diagnostics (DGX) 45
Quokka Sports 38

R

Red Hat Software 60
Regional Financial Associates 32
Renault 52
Rite Aid (RAD) 36
Rover Group 107

S

Salomon Smith Barney (C) 26, 107, 112

SAP 60
SAS 52
Saudi American Bank 35
SBC Communications (SBC) 139

Scania 52
Schwab (Charles) (SCH) 112, 118, 120
Seagram (VO) 42
Sears (S) 45
Securities Data 30
Siemens 48

SKF 52
SmithKline Beecham (SBH) 118
Softbank 118
Sotheby's (BID) 150
Southwest Airlines (LUV) 4
Specialty Labs 142
SpectraSite Communications 48

Sprint (FON) 48
Standard & Poor's (MHP) 159, 162
Star TV (NWS) 6
Stora 52
Sun Microsystems (SUNW) 69
Swedbank 52
Symantec (SYMC) 19

T

Taco Bell (YUM) 84
Tele-Communications (TCOMA) 139
Texaco (TX) 35
3Com (COMS) 60
Thyssen 108
Total 35
Transamerica Premier Small Company Fund 126
Travelers (C) 45
Tut Systems 19

U

Unicom (UCM) 48
United Airlines (UAL) 40
US Airways (U) 40
USA Networks (USAI) 42
USFilter (USF) 47

V

Vanguard Group 126, 138, 162
Vector Securities 138
Virco 142
ViroLogic 142
Visa 45
Visible Genetics 142
Volkswagen 107
Volvo (VOLVY) 52, 107

W

Warburg Dillon Read 45
Warner Bros. (TWX) 154
WebGear 19
Wendy's International (W) 45
Williams (WMB) 45
Wilshire Associates 126
Wit Capital 112

Y

Yahoo! (YHOO) 30, 60

Z

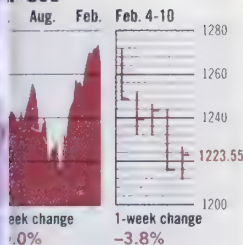
Zeneca Group (ZEN) 52

Business Week (ISSN 0007-7135) published weekly, except for one week in January and one in August, by The McGraw-Hill Companies, Inc. Editorial, Circulation, and Advertising Offices: 1221 Avenue of the Americas, New York, N.Y. 10020. U.S. subscriber rate \$54.95/year; Canada \$69/year. Periodicals postage paid at New York, N.Y., and at additional mailing offices. Postage paid at Montreal, P.Q. Canada Post International Mail Product Sales Agreement No. 246484. Postmaster: Send address changes to BUSINESS WEEK, P.O. Box 430, Hightstown, N.J. 08520.

Investment Figures of the Week

CKS

P 500

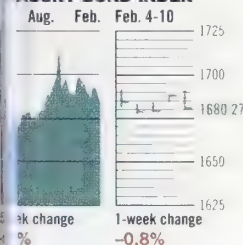


MENTARY

ig bond prices gave equi-vestors a tough week. The on the 30-year U.S. Trea-bond rose to 5.36%, the est level in five months. T put selling pressure on s. The Dow industrials lost t 2%, the S&P 500 ed 3.8%, and both are slightly below their 1998 g prices. The tech-driven Q Composite gave up over the week, but still etter than a 5% gain for ear. Internet stocks took its: Yahoo! fell 20.5%, on.com, 22.5%, and eBay, 6.

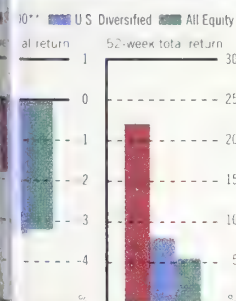
REST RATES

ASURY BOND INDEX



omberg Financial Markets

UAL FUNDS



orningstar, Inc.

U.S. MARKETS	Latest	% change Week	Year
Dow Jones Industrials	9177.3	-2.0	10.4
NASDAQ Combined Composite	2309.5	-7.4	35.2
S&P MidCap 400	358.8	-5.3	4.7
S&P SmallCap 600	162.7	-5.8	-13.6
S&P SuperComposite 1500	256.6	-4.0	17.2

SECTORS	Latest	% change Week	Year
Bloomberg Information Age	501.6	-6.5	56.1
S&P Financials	124.8	-3.9	2.3
S&P Utilities	240.9	-0.5	5.1
PSE Technology	469.8	-8.3	44.2

FOREIGN MARKETS	Latest	% change Week	Year
London (FT-SE 100)	5770.2	-2.9	2.9
Frankfurt (DAX)	4796.8	-5.7	4.5
Tokyo (NIKKEI 225)	13,952.4	-1.5	-18.9
Hong Kong (Hang Seng)	9076.3	-3.6	-15.9
Toronto (TSE 300)	6400.7	-4.8	-7.8
Mexico City (IPC)	3941.5	-2.9	-16.7

FUNDAMENTALS	Latest	Week ago	Year ago
S&P 500 Dividend Yield	1.30%	1.25%	1.49%
S&P 500 P/E Ratio (Last 12 mos.)	32.2	33.6	25.8
S&P 500 P/E Ratio (Next 12 mos.)*	23.2	24.1	20.0
First Call Earnings Revision*	-1.18%	-1.23%	-9.21%

TECHNICAL INDICATORS	Latest	Week ago	Reading
S&P 500 200-day average	1123.2	1120.2	Positive
Stocks above 200-day average	31.0%	34.0%	Positive
Options: Put/call ratio	NA	0.45	NA
Insiders: Vickers Sell/buy ratio	1.35	1.39	Positive

Data: Bloomberg Financial Markets; *First Call Corp.

BEST-PERFORMING GROUPS	Last month%	Last 12 months%
Cosmetics	16.4	Communications Equip. 88.3
Shoes	12.2	Specialty Appar. Retailers 85.9
Toys	11.6	Computer Systems 73.4
Alcoholic Beverages	9.9	Genl. Merchandise Chains 64.9
Housewares	7.4	Long-Dist.Telecomms. 63.5

WORST-PERFORMING GROUPS	Last month%	Last 12 months%
Tobacco	-22.9	Oil & Gas Drilling -57.4
Hospital Management	-17.2	Oil Exploration & Prod. -37.3
Oil & Gas Drilling	-16.3	Leisure Time -35.6
Metals	-15.9	Hospital Management -35.6
Furnishings & Appliances	-15.5	Oil-Well Equip. & Svcs. -34.8

BLOOMBERG MONEY FLOW ANALYSIS

Rebound ahead? Stocks with most significant buying on price weakness	Price	1-month change
America Online	147 ¹⁵ / ₁₆	-17 ³ / ₁₆
IBM	162 ³ / ₄	-26 ¹ / ₂
Vodafone Group-ADR	171 ¹ / ₄	-3 ³ / ₄
Lucent Technologies	96	-16 ¹⁵ / ₁₆
Ascend Communications	71 ³ / ₈	-5 ⁹ / ₁₆
Micron Technology	65 ¹³ / ₁₆	-1 ⁷ / ₁₆
Decline ahead? Stocks with most significant selling on price strength	Price	1-month change
Microsoft	160 ¹ / ₁₆	12 ⁹ / ₁₆
Dell Computer	97 ¹³ / ₁₆	15 ¹³ / ₁₆
MCI WorldCom	76 ³ / ₄	1 ³ / ₄
Sun Microsystems	97 ⁵ / ₈	3 ⁵ / ₈
Oracle	54 ³ / ₈	7 ⁷ / ₁₆
Schering-Plough	52 ⁷ / ₈	¹ / ₈

BLOOMBERG MUNI YIELD EQUIVALENTS

Taxable equivalent yields on AAA-rated, tax-exempt municipal bonds, assuming a 31% federal tax rate.

	10-yr. bond Latest week	Last week	30-yr. bond Latest week	Last week
GENERAL OBLIGATIONS	4.05%	4.07%	4.84%	4.84%
PERCENT OF TREASURIES	82.14	84.37	90.15	92.15
TAXABLE EQUIVALENT	5.87	5.90	7.01	7.01
INSURED REVENUE BONDS	4.20	4.23	5.11	5.10
PERCENT OF TREASURIES	85.19	87.69	95.18	97.10
TAXABLE EQUIVALENT	6.09	6.13	7.41	7.39

EQUITY FUNDS

Leaders	Four-week total return	%	Laggards	Four-week total return	%
IAI Value	25.8		Montgomery Emerg. Asia R	-22.0	
BT Invmt Latin Am. Eq.	18.7		Amerindo Technology D	-20.0	
IAI Emerging Growth	16.4		Apex Mid Cap Growth	-19.4	
Wright EquiFund-Mexico	9.9		Guinness Flight Main China	-18.2	
Warburg Adv. Japan Sm. Co.	7.9		State St. Res. Glob. Res. C	-17.2	
Leaders	52-week total return	%	Laggards	52-week total return	%
Internet	253.8		Lexington Troika Russia	-80.0	
Profunds UltraOTC Investor	140.8		American Heritage	-63.4	
Munder NetNet A	120.2		State St. Res. Glob. Res. C	-54.3	
Grand Prix	119.9		Offitbank Latin Amer. Sel.	-53.3	
Amerindo Technology D	116.5		Excelsior Latin America	-52.0	

EQUITY FUND CATEGORIES

Leaders	Four-week total return	%	Laggards	Four-week total return	%
Japan	1.4		Pacific/Asia ex-Japan	-11.5	
Latin America	0.3		Precious Metals	-6.7	
Communications	-0.2		Natural Resources	-6.3	
Large-cap Growth	-0.7		Financial	-5.9	
Health	-1.0		Small-cap Blend	-5.3	
Leaders	52-week total return	%	Laggards	52-week total return	%
Technology	46.7		Latin America	-41.6	
Communications	42.9		Diversified Emerging Mkts.	-28.5	
Large-cap Growth	29.0		Natural Resources	-26.1	
Large-cap Blend	15.6		Pacific/Asia ex-Japan	-18.5	
Utilities	14.1		Precious Metals	-18.4	

as of market close Wednesday, Feb. 10, 1999, unless otherwise indicated. Industry S&P 500 companies only. Fundamentals, technical indicators, Bloomberg mon-

ey flow analysis, and mutual fund returns are as of Feb. 9. For a more detailed explanation, write to us or E-mail figures@businessweek.com. NA=Not available **Vanguard Index 500 Fund

PRODUCTIVITY: HOW TO READ THE NUMBERS

It is now clear that productivity growth for the U.S. economy in the fourth quarter of last year rose 3.7%. This is extraordinary, especially so late in a business cycle that is now officially the longest peacetime expansion in U.S. history. For the past three years, productivity growth has averaged 2%, almost double the rate of the '70s and '80s. The big question is whether the U.S. is returning to, or even exceeding, its historic trend of 2% annual increases in productivity. The stakes are high. As any observer of the American economy can see, big productivity gains deliver terrific growth, low inflation, rising real wages, and low unemployment—the best of all possible worlds.

But the numbers aren't conclusive. There have been four three-year periods in the past 30 years when productivity growth averaged 2% only to dip back below that. Is the 1996-98 period one of these bumps, or is it part of a sustained era of high productivity growth? We can't be sure just yet.

Two tests ahead could possibly answer the question. The first is the most obvious. The strongest evidence that productivity has hit a higher level is the length and strength of the economic expansion itself. If it continues for another year—and so far, it looks like it will—the economy will set the record for the longest expansion ever. Big increases in capital spending, housing, and autos coupled with low inflation so late in the business cycle already prove that this expansion is very unusual. A fourth year of productivity at 2%-plus will strongly suggest that the transition to a new high-tech economy has boosted the trend rate of productivity growth.

A second test would be to see if the higher productivity level can sustain itself through an economic slowdown. Productivity has done well in the past three years, in part, because of the extraordinary strength of the economy. If it can remain relatively high during a downturn in the business cycle, we would know something has really changed.

Either way, 1999 is a key year for the productivity debate. Boom or bust, the answer will become much clearer. Our best guess? The surge in U.S. productivity is no fluke.

IT'S WORSE THAN YOU THINK IN CHINA

This is China's year of living dangerously (page 48). It is in a deflationary spiral that is choking economic growth and raising the political temperature. Unemployment is rising. Consumers are hoarding cash. Reform is on hold. Efforts to clamp down on corruption are discouraging investment. Foreign investors are being squeezed. Imports of Boeing jets are on hold, deepening the U.S. trade deficit with China. Premier Zhu Rongji's attempt to keep the economy growing as he

shuts down state factories, curbs the bureaucracy, and attacks corruption is in trouble. What comes next is hard to say.

U.S., European, and Japanese investment is already beginning to fall, depriving China of needed capital, technology and management expertise. In an attempt to help state enterprises, Beijing is going protectionist. The operations of foreign telecoms are being curbed, and a "buy local" campaign is under way. Distribution channels are drying up for foreign companies, and profits, never hefty, are disappearing.

The worst of it is the return of heavy-handed central control. In a lauded attempt to stop the smuggling of foreign exchange abroad, Beijing reinstituted the old tools of central planning. When state authorities discovered that the dozens of "ITICS," provincial investment corporations, were exposing billions of dollars in foreign loans which could not be paid back, they cracked down hard. But now paperwork needed to buy dollars or yen takes weeks, discouraging investment. And foreign banks, who thought the government would be the lender of last resort to the ITICS, are left holding the bag.

Zhu is making progress in turning China into a market-oriented economy. He's reforming the banks, passing securities legislation, privatizing property, and getting the military out of business. But the problems are enormous, and the remedies often harmful. Many foreign companies are asking when they should pass China by for the next five or 10 years while things get sorted out. Only Beijing can answer that.

OLD-LINE VS. ONLINE: INVESTORS WIN

The spread of Internet trading and rise of index funds have put traditional brokers and money managers on the defensive. Caught between the lower prices available on the Net and index funds' better performance, old-line Wall Street must find a new tool. Thanks to technology, people have all kinds of new ways to invest their money. The wing-tip crowd has a bright future only if it can find a way to handhold baby boomers and their retirement and gain the trust of twentysomethings.

The task is formidable. Technology now allows online investors to do trades at a fraction of the cost of old-line brokers. Plus they supply enormous amounts of investment information. Wall Street firms can offer their own sophisticated views on the market, but their analysts increasingly suffer from a credibility problem. Many have morphed into cheerleaders and investment-banking rainmakers.

The performance gap is widening as well. Over the past decade, 84% of all large-cap managers trailed the benchmark Standard & Poor's 500-stock index. And it's not only equity funds. Last year the Vanguard Total Bond Market Index outperformed 87% of all actively managed bond funds (page 111).

In the end, the battle between online and old-line will be fought on cost and performance. The outcome is far from inevitable. After all, the giant Fidelity Magellan Fund managed to beat the S&P-500 index's stunning 28.6% performance last year. But either way, the investor will be the big winner.

the next decade 800 million people will be coming
to the world's cities in search of a better life.

Imagine what happens
when they trade
their bicycles for cars.



We're making the products that cities will need to handle all kinds of pollution in the future — now. Fuel cells that have powered space missions for 30 years now generate electricity for hospitals, offices and apartments.

They're also part of the new hybrid engines that will power tomorrow's cleaner running cars. And that's just for starters.

We make the broadest line of chlorine-free air conditioners in the world. People movers that squeeze more people and reduce traffic. Aircraft engines that save fuel and reduce noise.

Because, right now, the environment is where the need is.

In the future, it's where the money is.

Be there first.



**United
Technologies**

Carrier

Pratt & Whitney

Sikorsky

Hamilton Standard

UT Automotive

*For over 90 years, the best-known
companies in the automotive industry have seen us as a leader
in technology and innovation.*

